Public Utilities

FORTNIGHTLY

Volume 57 No. 8 April 12, 1956

IS FPC GAS PRODUCER REGULATION HERE TO STAY?

By Francis X. Welch

« »

Income Bonds Revisited

By Philip P. Ardery and Carl E. Abner

« »

The Right-of-way Man—A Friend Maker

An Interview with Frank E. Randall

« »

After the Gas Bill Defeat—Producers View the Future

PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

an *important* new "**PLUS FACTOR**" of the Motorola Twin-V Radiophon

TRANSISTORIZED MOBILE DYNAMIC MICROPHONE

Unprecedented voice clarity for mobile radio transmission

- true moving coil dynamic characteristics
- transistor preamplifier built-in
- printed circuit
- all-metal housing
- retains popular size and shape
- superior voice reproduction
- unexcelled reliability.

Twin-V

The new transistorized dynamic microphone, or the dual purpose dynamic "Speaker-Mike," is *optionally* available with Motorola's "TWIN-V" Radiophone—the world's finest FM 2-way mobile radio unit . . . incorporating many *exclusive* features, including universal 6/12 volt operation, Sensicon receiver, Permakay Filter, and Instantaneous Deviation Control.

Motorola's new transistorized dynamic microphone provides *mobile* transmission quality comparable to that of the base station. Unexcelled voice clarity, crispness, and intelligibility are yours in this newest Motorola *first.*

Also available as "SPEAKER-MIKE"

The new microphone can be furnished as a dual-purpose "Speaker-Mike" which functions as a full output communications-type *loudspeaker*, as well as a dynamic microphone. It can be conveniently mounted, or held near the operator's ear to overcome high ambient noise levels.

You can have either of these outstanding microphones as replacement items, or as *optional* equipment with new Motorola "TWIN-V" Radiophones. The transistorized, dynamic microphone, with its *popular palm size*, is directly interchangeable with Motorola carbon models now in use. The "Speaker-Mike" version requires a simple modification kit for replacement use in existing equipment.

Immediately available. Write, phone or wire today, or contact your local Motorola Radio Communications Engineer.

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Public Utilities Fortnightly . . stands for federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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The pictures below show significant steps in the shop fabrication and assembly of B&W's Universal Pressure Steam Generator for Philo Plant.

B&W Universa

Assembly, complete and ready for shipment, of the second pass side wall is about 55 feet long, 5 feet, 6 inches wide. Alloy tubes are strength welded into the headers.

Floor tubes for secondary front wall assembly are carefully inspected for correct alignment.

An intricate job of bending, studding, and nesting characterizes the screen and floor for the secondary front wall.

Support castings being welded on flexible, small diameter tubes for roof assembly. Note that each tube end has a steel plug in it for cleanliness and future hydrostatic tests.

Shop assembly of secondary front wall. Note assembly frame which was made of plates and pipes welded together, but was not attached physically to the tube assembly at any point.

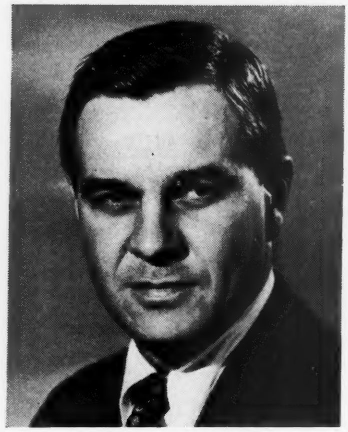
Secondary front wall section of alloy tubes and headers on its way to be completely stress relieved after assembly.

Pages with the Editors

WHEN the Harris-Fulbright Bill ended in a surprise veto by President Eisenhower on February 17th, it raised many questions about the future direction of the movement to exempt producers from the Natural Gas Act. But the main question was whether any attempt would be made to revive such legislation and, if so, when and in what form.

DUE to the circumstances surrounding the veto, even supporters of the bill were quick to agree that nothing further could be done in 1956. Can anything further be done in 1957? Is such legislation even necessary? Could there be any agreement between the various conflicting industrial interests on such legislation? The editor of this publication, FRANCIS X. WELCH, decided to check around in Washington, D. C., and elsewhere. His checking took him from Capitol Hill to industrial sources and regulatory commission contacts.

AT the outset, he was bewildered by the very chaotic situation left in the wake of the President's veto message. Producer rate cases continue to pile up at the Federal Power Commission. Federal Power Commission members and staff confess they do not know what to do about them. They are going ahead courageously in an effort



PHILIP P. ARDERY

to find some guiding principles that will stand up under court test. But here again the federal courts, in a series of recent decisions, have complicated the commission's effort to clear the path in this pioneer field of regulation.

SOME producers are still adamant in their refusal to concede that they would ever submit to federal regulation. Upon questioning, most of them had no special prejudice against utility regulation *per se,* or against the Federal Power commissioners. In fact, many of them did not know very much about utility regulation and admitted as much. The attitude of a few recalls the remark made by a very strong political partisan of the old school about a popular presidential candidate some years ago, when a mutual acquaintance tried to get them to meet as friends. The old-guard partisan said simply: "I don't know him and I don't want to know him." When the friend suggested that "He is a very charming fellow; everyone says so," the old-timer crustily replied: "That's just it. If I get to know him, I might like him, and I *hate* the so-and-so!"

OUR editor attempted to slough off or discount at the very beginning of his investigation some of the more extreme viewpoints which he encountered. He

CARL E. ABNER

called them "excess baggage." He then proceeded to outline really important factors which might be considered around a hypothetical conference table of men from all segments of the industry—men of good will, with honest differences of opinion, but honestly striving to reach common ground. MR. WELCH thinks this can be done and, if it is done, there is yet hope—political fortunes smiling on the project—that another bill can be launched and gain approval at the next session of Congress.

BUT it will probably have to be a bill of concessions from various quarters. And, in his opinion, it will have to be a bill continuing FPC regulation over the natural gas producers, in some form or other. In short, as the title of his article in this issue would imply, he thinks such FPC regulation is here to stay. For many years, producers have thought otherwise. On two occasions they have gotten legislation as far as the President's desk, only to be turned back by vetoes. Will they try again?

* * * *

THESE are times when many public utility company managements are caught in the pressure of new financing requirements and regulatory consequences in the form of expected revenues. Should new financing take the form of bonds or stock? And what about that controversial security known as "income bonds," or the more euphemistic appellation "revenue bonds"? There have been some refinements on the old-style income bonds which have an unpleasant connotation in many quarters, growing out of unhappy experiences during the depression.

FRANK E. RANDALL

IN the article beginning on page 517, two authors, PHILIP P. ARDERY, Louisville attorney, and CARL E. ABNER, have collaborated on a thoughtful account of the old problem of revenue bonds for utility financing, brought up to date in the light of present conditions. MR. ARDERY, son of a Kentucky court judge and graduate of the University of Kentucky ('35), is also a graduate of Harvard Law School ('38). He practiced in Frankfort until called for service as an Air Force pilot during World War II. He is now practicing in Louisville, specializing in utility matters.

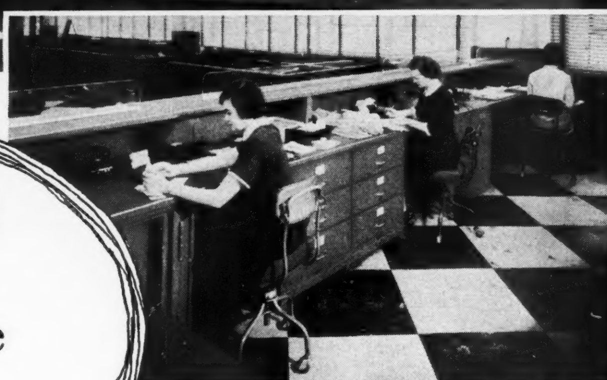
PROFESSOR ABNER is a Canadian citizen, and a graduate (BA,'42) from Queens University, Kingston, Ontario, and Columbia University (MA,'48). He has also studied at the London School of Economics. At present he is assistant professor of economics, school of business, University of Louisville. His special fields of interest are: international economics, monetary economics, economic theory, and investments.

* * * *

FRANK E. RANDALL, whose interview with James H. Collins, Hollywood, California, business author, begins on page 525, is right-of-way superintendent of the Pacific Telephone & Telegraph Company of Los Angeles. He has been with that company for thirty years, starting in engineering. But MR. RANDALL's prime interest has been in real estate—its legal and economic aspects. He was educated at the University of California, college of commerce, and studied law at Loyola University (LLB). He is a member of the California bar and has served as president of the American Right of Way Association, as well as vice president of the American Public Works Association.

THE next number of this magazine will be out April 26th.

The Editors



Working side of a 3-section counter

How Cashiering AND Bookkeeping are combined in this 3-Clerk Counter...

...for working efficiency, good public relations and space-saving

The three complete work stations making up this counter are Remington Rand's new sectional Customer Service Counter units.

Unlike custom-built counters, this sectional counter unit, which accommodates all facilities and records for a cashiering and bookkeeping station, offers complete flexibility. Here, three of the units are combined. These sections may be moved and adapted to a new location, or for larger quarters, a new section may be added. Whatever the number of clerk-stations you may require, this unit provides the highest degree of efficiency in the smallest amount of space.

Its appearance is open and friendly. The clerk *always* faces the customer — ready to serve . . . has complete facilities within arm's reach. No time is wasted walking from bookkeeping desk to customer. It eliminates working at a desk with back to customer — the "extra" desk is eliminated! Customers are served more promptly, efficiently and courteously.

There's a continuous parcel shelf, encouraging customers to step aside so that the next in line may be served.

The clerk works comfortably seated at her desk, ending the usual "standing" counter cashiering, with the fatigue and errors which are bound to result.

For The Small Office, it's most economical and efficient to combine cashiering and bookkeeping by use of a single unit. This one-section counter reduces costs by centralizing all customer contacts and records within reach of one clerk. Record forms of any size may be housed . . . even a typewriter pedestal may be included.

For Fire Protection, desk-height, *certified,* insulated units are available to protect counter-stored vital records, 24 hours a day, at point-of-use.

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(April 26, 1956, issue)

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THE GAS CONSUMER'S STAKE IN THE DEPLETION TAX PROVISION

During the controversy over the passage and subsequent veto of legislation to exempt independent natural gas producers from FPC regulation, the question of gas-oil tax depletion allowance was raised. Although this deduction for depreciation, allowed by law on the taxable income derived from gas and oil wells, has nothing to do with FPC regulation of gas production, the dispute over the Harris-Fulbright Bill led to considerable discussion of the tax provision during congressional debate. But would the natural gas consumer be hurt or helped if the tax depletion allowance on gas well production were cut down or cut out by Congress? Would it affect the production cost of gas to the pipeline and ultimately to the consumer of the distributing utilities? In other words, have the gas consumers, as such, any interest in maintaining the present tax depletion allowance, or would they be better off if it were curtailed or abandoned? Russell B. Brown, general counsel of the Independent Petroleum Association of America, has written a careful analysis of the basis for the depreciation allowance and its impact on the economics of gas-oil production.

RECENT TRENDS IN UTILITY FINANCING

Changing times often mean changing forms in financing. Financing of public utilities is no exception. Owen Ely, financial editor of PUBLIC UTILITIES FORTNIGHTLY, has reviewed in a special article, the recent trends in utility financing and the reasons for the changing modes. Some utility executives have followed a definite policy or pattern for financing for years. Others have favored greater flexibility and variation with freedom to adopt new methods. The proportion of utility offerings in bonds and preferred stock as compared with equity financing and the respective volume of public and private offerings has been reviewed by this author.

ATOMIC ENERGY AND THE POWER INDUSTRY

This is a thought-provoking article exploring the economics of three types of electric power generation: hydro, steam, and the atomic reactor. It is written by Franklin H. Cook, a Pennsylvania State professor of economics. He has endeavored in this discussion to bring into one place an analysis of what is known to date on the cost of these three types of generation. The author is concerned more with the economic facts rather than the techniques of operation or speculation concerning these alternative "fuels."

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***

Remarkable Remarks

"There never was in the world two opinions alike."
—MONTAIGNE

SIR ROGER MAKINS
British Ambassador to the United States.

"Democracy is a form of political organization which needs constant effort and attention. Complacency invites disaster."

EDITORIAL STATEMENT
The Wall Street Journal.

"In the absence of the power of government, the power of competition will topple all restraints on trade. For competition has its own imperatives, and its imperatives are the public's demands."

GORDON W. MCKINLEY,
Head economist, Prudential Insurance Company of America.

"One of the most convincing indications of an upsurge in the economy is the confidence in the future exhibited by businessmen. There is a growing realization that capital investment must be planned for the long pull, with little weight given to intermediate cyclical fluctuations in business activity. These new attitudes constitute one of the most important changes in our economy in recent years."

HARRY A. BULLIS
Chairman of the board, General Mills, Inc.

". . . there is no magic power in the idea of a program of public relations itself, even though great sums of money are poured into it. . . . too many programs fail because they were based on an almost cynical attitude toward the public, an attitude which assumed that noise, intellectual sleight of hand, fancy advertising, and big headlines could stampede the man in the street. We all know that the public cannot be fooled."

EDITORIAL STATEMENT,
Chicago Tribune.

"Cutting down governmental activity can only strengthen the foundations of liberty and the private enterprise system. The consequent reduction in spending offers the eventual promise of substantial tax cuts. When a private operator takes over a government activity he pays taxes where the government paid none. A beginning has been made on a movement that deserves the support of every taxpayer. If the administration is encouraged to continue disposing of properties and services which could be handled as well, if not better, by private management, perhaps it will gain the courage to tackle the disposal of some of its most costly burdens, such as the Tennessee Valley Authority and other federal power operations."

Excerpt from First National City Bank (New York) Monthly Letter.

"Fortunately, most businessmen seem to be keeping a careful eye on developments. To some observers, the very speed of the recovery has seemed too good to be true. They express misgivings about the high rate of housing starts, the growing burden of consumer instalment and mortgage debt, declining farm income, and scattered indications of commodity price weakness. They wonder whether people are overextending themselves, and are watching such sensitive indicators as delinquencies, garnishments, and foreclosures. So far no convincing danger signals have appeared, but these misgivings are worth bearing in mind. The confident but cautious optimism that has served business so well in recent years is still needed."

". . . will require

the utmost cooperation

of all of us"

"Our industry has made gigantic strides in last decade. But, bright as the picture is, th is still a tremendous job to be done. The Li Better Electrically program provides a way accomplish this job realistically on a natio basis. It will require the utmost cooperation all of us. If we can put this across . . . this bro concept of Live Better Electrically . . . all se ments of our far-flung interests will benefit ec nomically. And, what is more important, t entire nation will be enriched with the oppo tunity for better living, easier living, happi living."

How electric utility companies ar ba

LIVE BETTER...

Today, over 200 electric utility companies are actively participating in the Live Better Electrically program. On February 8, over 80 of these companies sponsored the Live Better Electrically closed-circuit television show and invited their trade allies in 76 cities to attend. On that afternoon in February, the show was seen by an audience (and a selected audience!) of over 30,000 people.

Two hundred kinescope (film) prints of the show have been distributed for later showings by utility companies, and it is estimated that these will have an audience of a quarter of a million viewers.

Many utility companies are already using the Live Better Electrically theme and symbol in their advertising. Some

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Harllee Branch, President, Edison Electric Institute

backing

...Electrically

have used it on their annual report. Reports have been enthusiastic, and demand for advertising materials has exceeded even the most optimistic plans. Some utility companies have revamped their entire advertising schedule in order to make fuller use of the Live Better Electrically theme. Others have bought time on radio and television to identify their company with the Live Better Electrically movement. The success of the Live Better Electrically campaign depends, in great measure, on co-operative effort. These utility companies working for, and getting the cooperation of, trade allies in their local areas will reap the greatest rewards.

HERE ARE THE WAYS YOU CAN ENLIST THE SUPPORT OF YOUR LOCAL TRADE ALLIES

Conduct regular Live Better Electrically sales and information meetings with dealers, contractors, builders and other local trade allies.

Make wide distribution of all Live Better Electrically promotion materials—banners, window streamers, posters, counter cards and direct-mail pieces.

Suggest truck signs, letterheads, business cards, postage-meter slugs incorporating the theme.

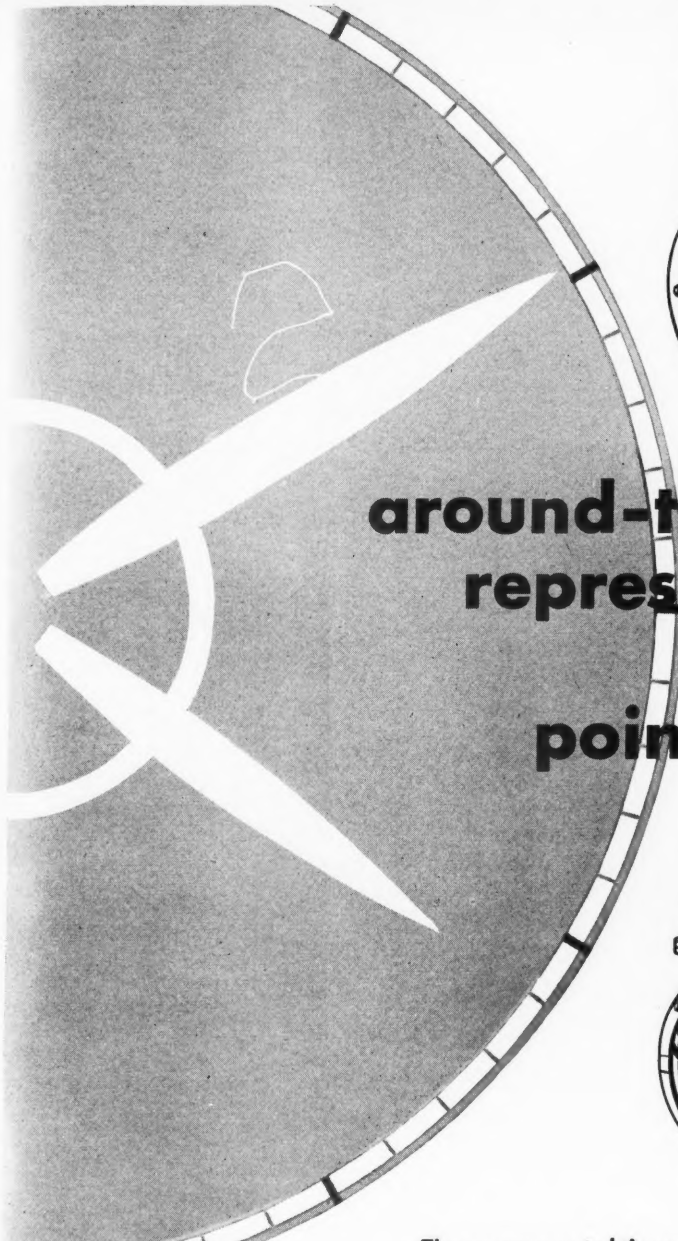
Distribute copies of book "How to Help Home Owners Live Better Electrically" to trade allies.

Supply trade allies with copies of consumer book "Step-by-Step Ideas to help you Live Better Electrically."

Mail copies of 8-page booklet entitled "The Story of Live Better . . . Electrically" to your trade allies.

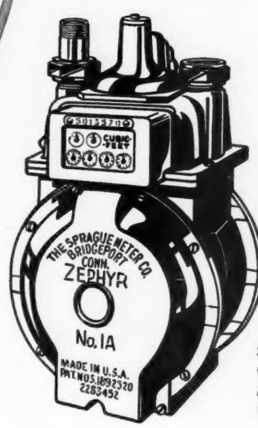
Use prepared radio and television commercials on your local stations.

Supply your trade allies with prepared newspaper advertising mats in various sizes.



SPRAGUE
240
METER

around-the-clock representative at the point of sale



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The accuracy and time-proven minimum maintenance of Sprague Gas Meters are worth your consideration.

THE *Sprague* METER COMPANY

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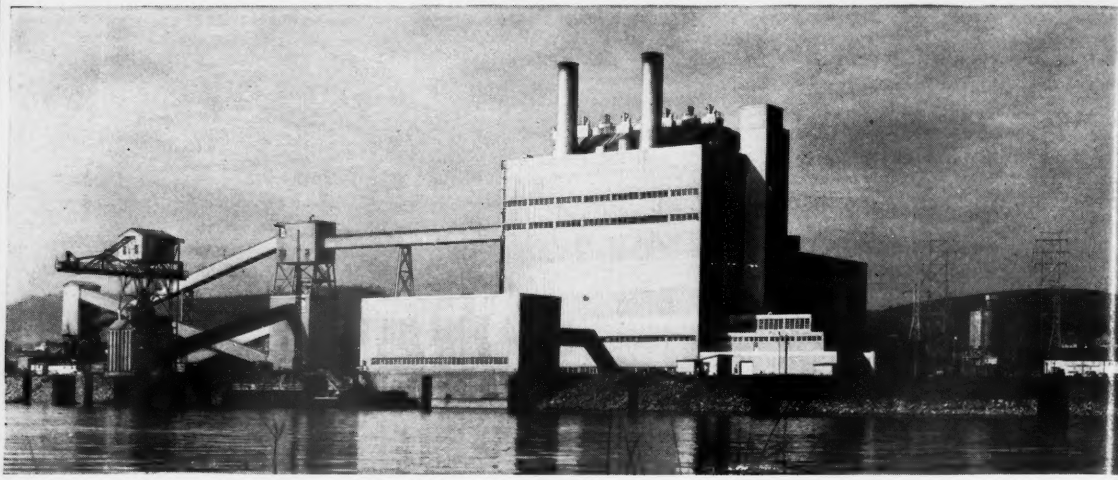
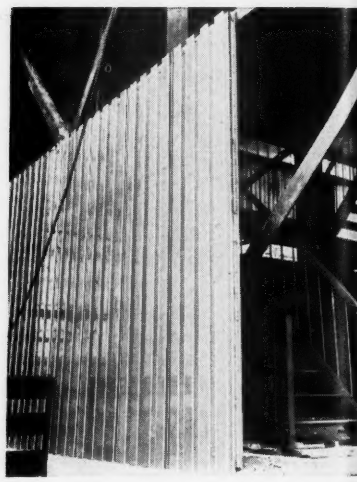


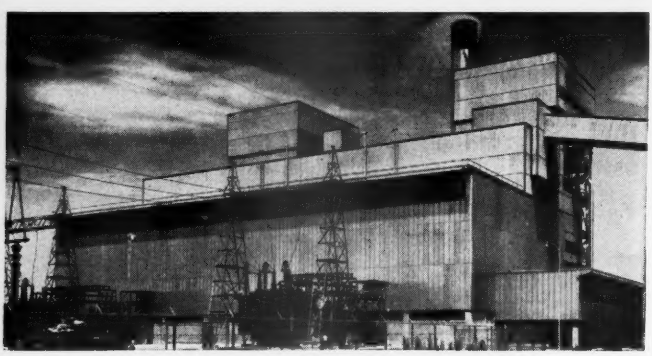
Q-Panel walls grace the new Elrama Po
Plant (above) near Pittsburgh. It was desig
by Duquesne Light Company's Engineer
and Construction Department. The Dr
Corporation was General Contractor.

Why fine new power plants everywhere have Q-Panel Walls

Builders of new power plants in all parts of the country have specified Q-Panel walls for the following very good reasons: 1. Q-Panels are permanent, dry and noncombustible, yet may be demounted and re-erected elsewhere to keep pace with expansion programs. 2. Q-Panels are light in weight, thus reducing the cost of framing and foundations. 3. Q-Panels have high insulation value . . . superior to a 12″ masonry wall. 4. Q-Panels are quickly installed because they are hung, not piled up. An acre of wall has been hung in 3 days. For more good reasons for using Q-Panel construction, use the coupon below and write for literature.



Q-Panel walls (above) go up quickly in any weather because they are dry and hung in place, not piled up.



More than 32,000 sq. ft. of Q-Panels were u
to enclose the impressive Hawthorn Ste
Electric Station (left) of the Kansas City, M
souri, Power and Light Company. Ebasco S
vices, Inc., designed and built the plant.

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Please send a free copy of your Q-Panel Catalog.

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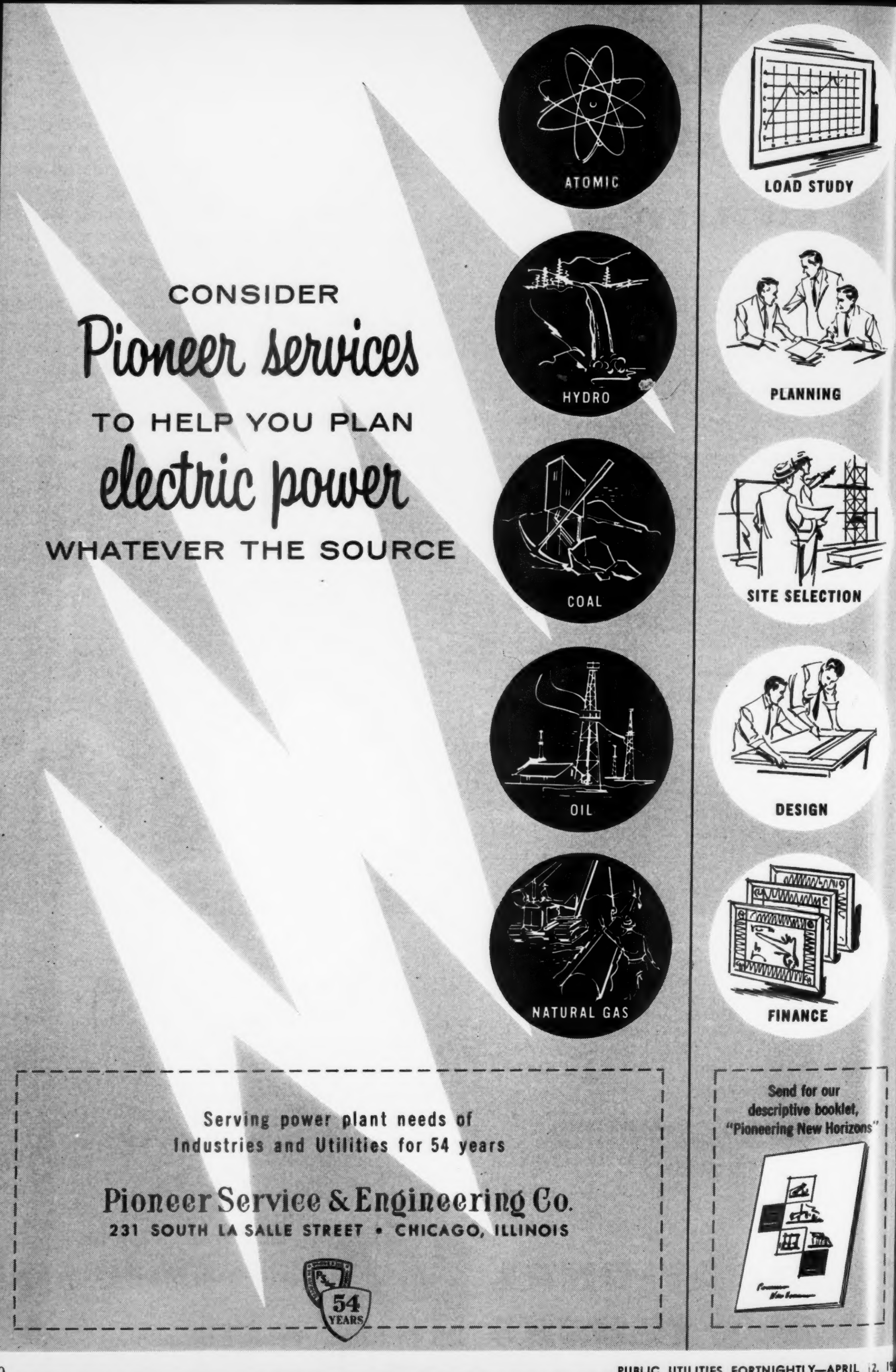

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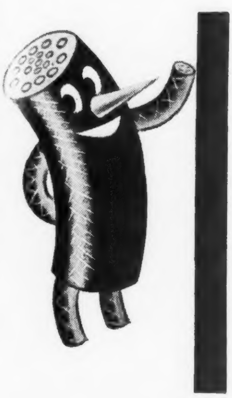
The miracles of modern electric illumination were all foreshadowed by the glow of Edison's first lamp—implicit in the great IDEA. Also implied in this, as in all epoch-making inventions, were the corollary imagination and effort of thousands of unpublicized successors—pioneers of America's vital electric illuminating industry.



KERITE insulation was well established before the turn of the century. Already famous in telegraphic and signal applications, Kerite quickly won recognition for safety, dependability, and ultimate economy in the infant lighting and power industry . . . for the transmission of electric power via aerial, underground, and submarine cable.

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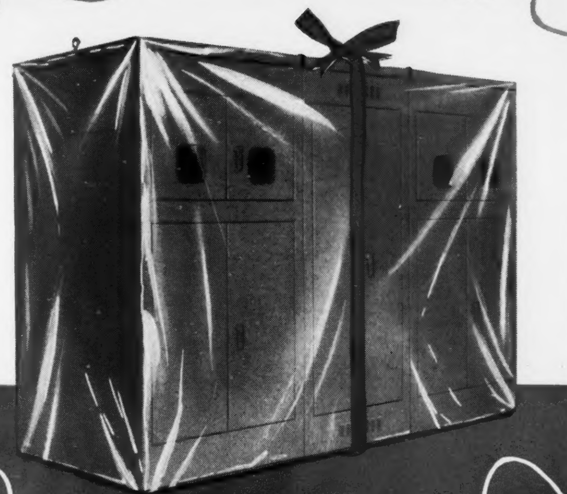


A TYPICAL S&C THROW-OVER PACKAGE

Super-Durabalite Finish is beautiful and long lasting . . . prevents rust and minimizes maintenance.

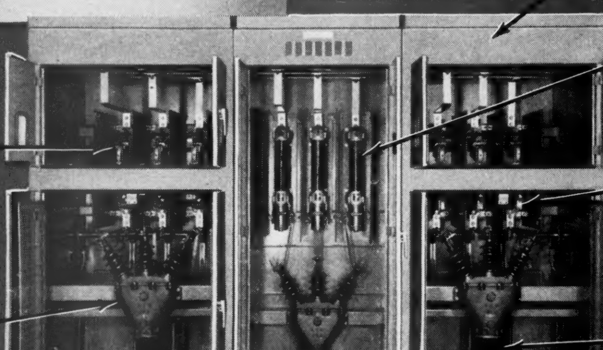
S&C Power Fuses protect transformer primary whether supplied by preferred or emergency source.

S&C Load Interrupter on preferred source opens on power failure.

S&C Load Interrupter on emergency source closes on power failure.

S&C Gear is a complete package ready for service. Just make up the potheads . . . no on-the-site engineering, assembly or testing required.

Potential Transformers sense both preferred and emergency sources...transfer occurs only if there is voltage on the alternate source. (Secondary sensing is optional.)



Control Panel and Operators (at rear of center section) provide for load transfer to an emergency source of power when there is a loss of voltage on the preferred source. With economical semi-automatic spring operators, the load is returned manually at the convenience of the operator. With optional hydraulic operators, back transfer occurs either when preferred voltage is restored or when a loss of voltage occurs on the alternate source.

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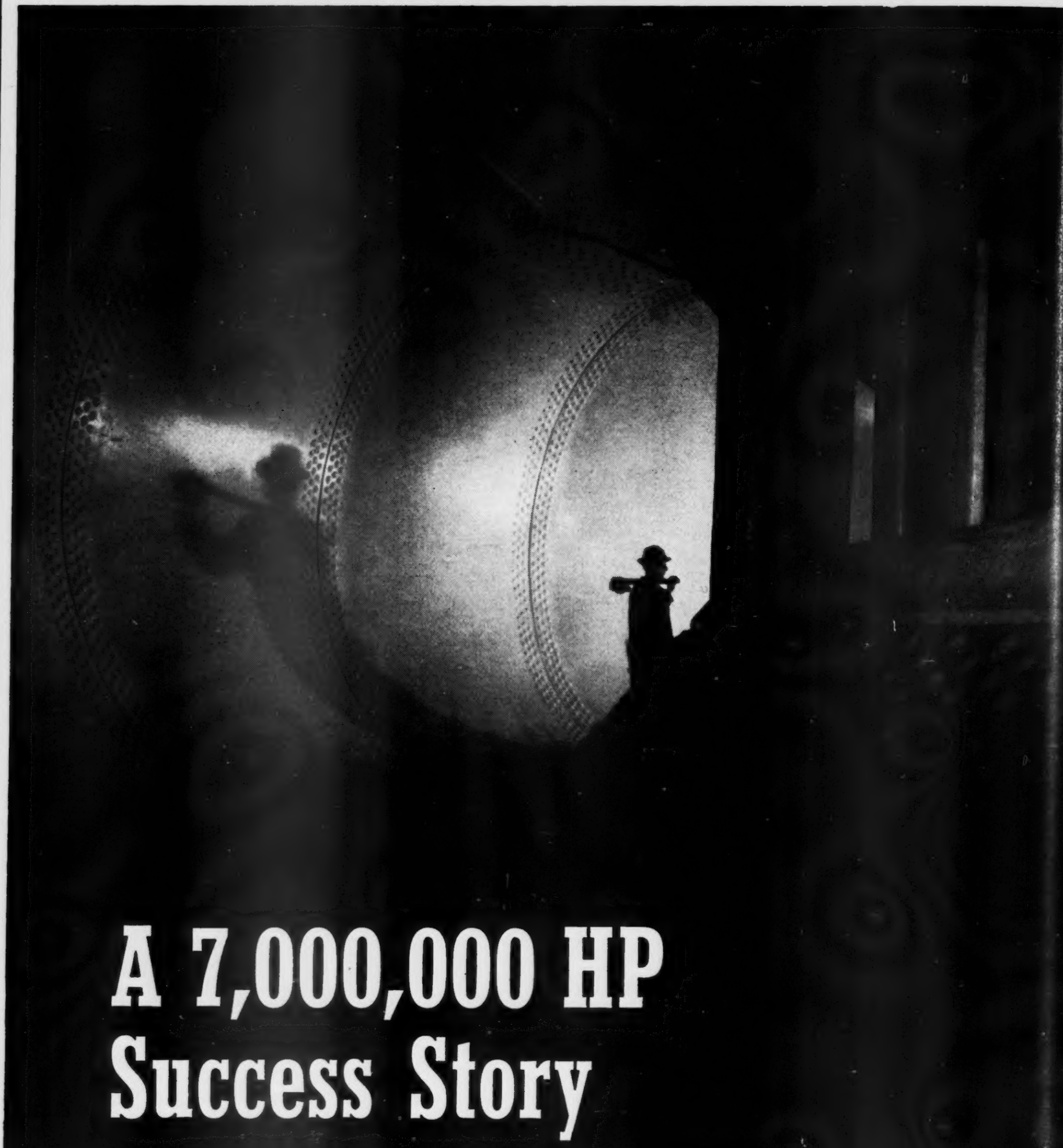


Interior view of spiral casing at Norris D

Achievements of Newport News personnel in designing and building water power equipment during the past thirty years reflect a high integration of skill and production facilities.

Answering demands for hydraulic turbines rated as high as 165,000 horsepower and as low as 500 horsepower, this trained organization has successfully filled contracts with an aggregate rated output in excess of 7,000,000 horsepow

Other essential equipment including penstoc spiral casings, valves, pumps, gates and rack ra are also designed and built by Newport News

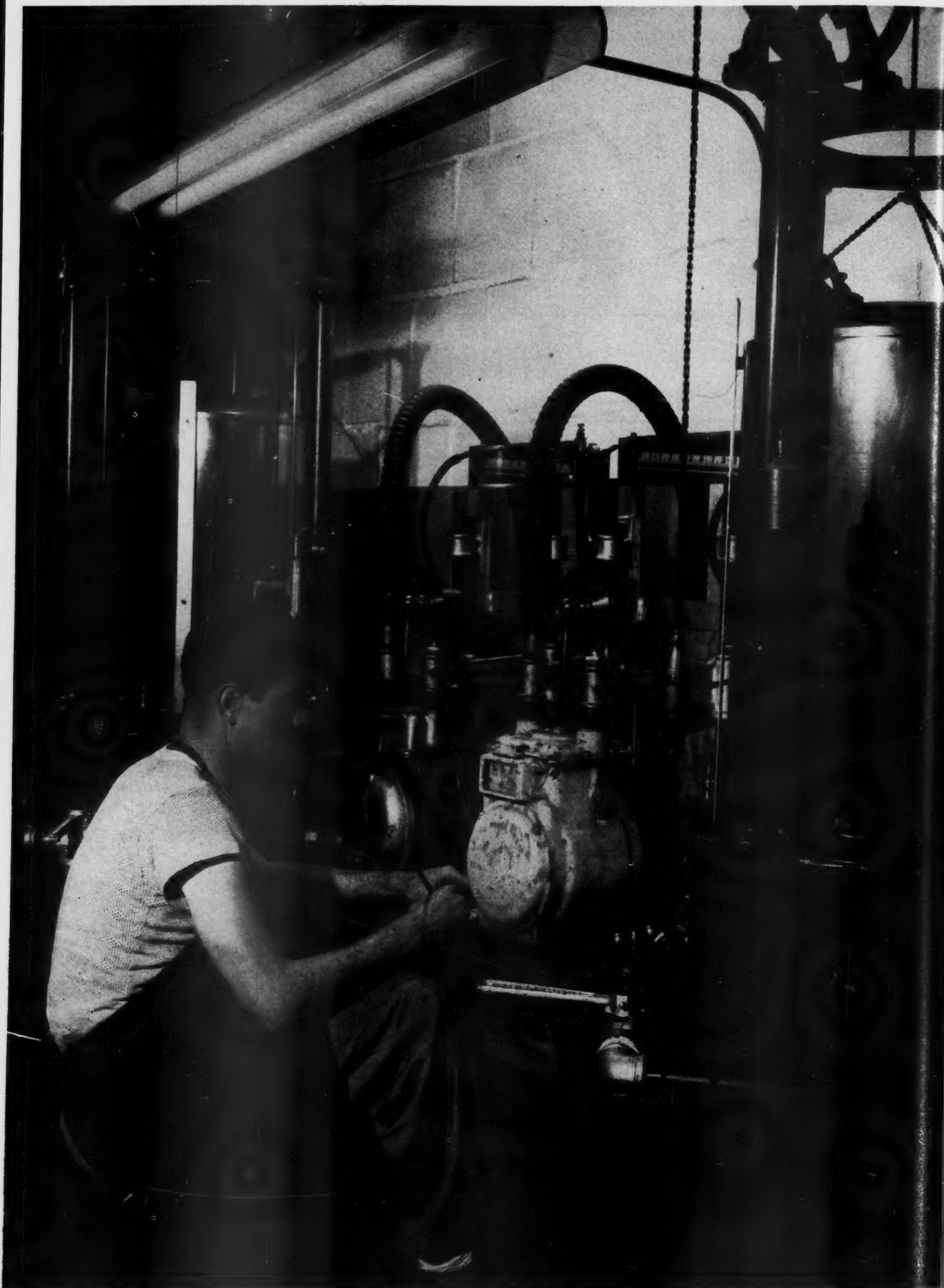
An illustrated copy of our booklet entitl "WATER POWER EQUIPMENT," will be s to you upon request.

NEWPORT NEWS **SHIPBUILDING AND DRY DOCK COMPANY**
Newport News, Virginia

UTILITIES *A·l·m·a·n·a·c·k*

APRIL

Thursday—12 *Southeastern Electric Exchange, Engineering and Operation Section, begins meeting, Augusta, Ga.*	**Friday—13** *Northwest Electric Light & Power Association, Engineering and Operation Section, ends 3-day meeting, Vancouver, British Columbia, Canada.*	**Saturday—14** *Rocky Mountain Electrical League will hold annual fall convention, Colorado Springs, Colo. Apr. 29-May 1. **Advance notice.***	**Sunday—15** *Edison Electric Institute, Engineering Committees, will hold meeting, Chicago, Ill. Apr. 30-May 2. **Advance notice.***
Monday—16 *Greater New York Safety Council begins annual safety convention and exposition, New York, N. Y.*	**Tuesday—17** *Atomic Industrial Forum, Inc., begins atomic energy conference, Atlanta, Ga., and Oak Ridge, Tenn.*	**Wednesday—18** *American Water Works Association, New York Section, begins annual meeting, Utica, N. Y.*	**Thursday—19** *Gas Appliance Manufacturers Association begins annual meeting, White Sulphur Springs, W. Va.*
Friday—20 *Indiana Gas Association ends 2-day meeting, French Lick, Ind.*	**Saturday—21** *National Farm Electrification Conference will be held, Chicago, Ill. May 3, 4. **Advance notice.***	**Sunday—22** *National Association of Railroad and Utilities Commissioners, Executive Committee, will hold meeting, St. Louis, Mo. May 4. **Advance notice.***	**Monday—23** *Southern Gas Association begins annual convention, Dallas, Tex.*
Tuesday—24 *North Dakota Telephone Association begins annual convention, Fargo, N. D.*	**Wednesday—25** *World Oil Exposition begins, Houston, Tex.*	**Thursday—26** *American Water Works Association, Pacific Northwest Section, begins annual meeting, Victoria, British Columbia, Canada.*	**Friday—27** *Southeastern Gas Association begins supervisor training round-table conference, Charlotte, N. C.*



Courtesy, United Gas Corporation

Domestic Meter Testing

One of the many gas-distributing company problems.

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Is FPC Gas Producer Regulation Here to Stay?

This writer believes that it is, in one form or another; and that producers might well seek to make the best of it, rather than revive the twice-vetoed effort to avoid such regulation entirely.

BY FRANCIS X. WELCH*

ON February 17th President Eisenhower vetoed the Harris-Fulbright Bill to exempt independent natural gas producers from the direct jurisdiction of the Federal Power Commission. This action climaxed nearly a decade of agitation to exempt producers from the Natural Gas Act. Going all the way back to the Moore-Rizley bills in the 80th Congress and including the two bills actually approved by Congress but vetoed by Presidents Truman in 1950 and Eisenhower in 1956, there have been a number of such bills. These bills, varying in phraseology but similar in general purpose, had one feature in common. They were all exemption bills. They were all attempts to *exclude* producers from the jurisdictional control of the FPC.

It is easy to understand how the authors of such bills got started on that line of amending the Natural Gas Act. They were mostly Congressmen from gas-producing states who were, and probably still are, under the impression that it was the original

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intent of Congress to exempt producers and gatherers from rate-fixing control, as well as every other kind of FPC jurisdiction. And when the U. S. Supreme Court in the celebrated Phillips Petroleum decision refused to construe § 1 (b) of the act as removing natural gas sales by such producers for public consumption from the general rate-fixing authority of the FPC as part of the general interstate traffic, the Harris-Fulbright Bill openly attempted to nail down such an exemption notwithstanding the Phillips Petroleum decision.[1]

The question now arises, however, whether gas producers can ever expect to be entirely free of the FPC's jurisdiction. The further question arises whether they might not have more success, or at least *some* success, in obtaining their objectives by trying to live within the Natural Gas Act, rather than by trying to get special legislation placing them outside of it. Twice they have swung and missed on gaining presidential approval of legislation passed by Congress. Would a third attempt along the same line mean a complete strike out and put them in an even worse position as far as gaining certain measures of regulatory relief with which President Eisenhower himself confessed he was in sympathy? Considering the political strength and influence wasted already on exemption bills, how much of it is left to support merely corrective legislation? How welcome will the producers be on Capitol Hill next year?

It might be well to bear in mind one statement in the President's veto message. It was not that part of the message dealing with the controversial passage of the Fulbright Bill through the Senate. It was the very last sentence of the message dealing with the merits of the legislation. President Eisenhower said:

> I feel that any new legislation, in addition to furthering the long-term interest of consumers in plentiful supplies of gas, should include specific language protecting consumers in their right to fair prices.

Thoughtful consideration of this language suggests that while President Eisenhower is not averse to some legislation, changing or clarifying standards of regulating producers, he is nevertheless in favor of *continuing* regulatory controls over them in the interest of protecting the consumer. Going a step further, it is difficult to believe that the President had in mind any self-executing statutory provisions which would leave the FPC out of the picture entirely and delegate consumer protection mainly to the realm of contract bargaining between pipelines and producers. As a matter of fact, many good lawyers had serious doubts about the validity of the Harris-Fulbright Bill, on this score, even if it had been enacted into law. After all, the same U. S. Supreme Court would have had to pass upon the constitutionality of such legislation, strongly smacking of pointedly overriding its own decision.

But it is academic at this time to worry about the hypothetical validity of the Harris-Fulbright Bill or what would have happened to it on a constitutional test case. Indeed, it might even be academic to place too much emphasis on whether President Eisenhower would or would not sign the same Harris-Fulbright Bill if it should

[1] Phillips Petroleum Co. *v.* State of Wisconsin (1954) 3 PUR3d 129.

again come before him for future approval, without the handicap of the controversial charges about influencing senatorial votes.

The plain fact is that the Harris-Fulbright Bill could not be passed again in this 84th Congress, as even the bill's supporters are ready to admit. More than that it is very unlikely that the *same* sort of bill would get very far in the next Congress. That would depend, of course, on the elections next November. A realistic appraisal of the situation, however, strongly suggests that the producers will have to take something less than the Harris-Fulbright Bill, if they get any new legislation at all.

Is New Legislation Needed?

It would serve no practical purpose here to go back over the welter of arguments and counterarguments on the subject of why the producers thought they needed any statutory relief at all. Most readers of these pages are familiar with the main contention of the producers that they are engaged in selling a competitive, marketable commodity, not in performing a utility service. Those opposed to outright exemption of the producers from all controls mainly contend that there cannot be fair and reasonable regulation of gas rates at one end of the pipeline and none at the other. In between these two positions, the U. S. Supreme Court has ruled that producers are subject to rate regulation under the Natural Gas Act with respect to the sale of gas moving in interstate pipelines. Where does that leave us?

The situation is complicated by the fact that efforts on the part of the Federal Power Commission to work out a realistic form of regulation which might be fair as well as practical for producers, have struck a judicial snag, if not a stone wall, in the decision of the U. S. circuit court of appeals for the District of Columbia in the so-called Panhandle Eastern Pipe Line Case.[2] Here is what FPC Chairman Kuykendall said, very informally, about that decision, in recent testimony before a House Appropriations subcommittee:

> CHAIRMAN KUYKENDALL: . . . I would say this, and with all due respect to the circuit court of appeals, I think that the court was in error when it told us we had to have an original cost study of each producer. I think the court was actually legislating when it said that, because the Natural Gas Act merely says

[2] City of Detroit *v.* Federal Power Commission (USCA [DC]), 11 PUR3d 113.

> "REGARDLESS *of who sits in the White House next year, or what party controls Congress, new producer legislation will have to get started under a handicap. The handicap results from the political disclosures which have come about since the Senate passed the Harris-Fulbright Bill and more of which may be aired before the next Congress meets. There is no need to dwell, here, on the unpleasant ramifications, which should have nothing to do with the merits of new legislation. But it is only being realistic to consider that such a handicap for such legislation does and will exist."*

that we shall prescribe just and reasonable rates. I still believe that the correct law is what the Supreme Court has said so many times, that we are not confined to any one rigid formula.[3]

REPRESENTATIVE YATES: I would agree with that . . .

THERE is every reason to believe that the present FPC membership will try to work out a fair and practical approach. After all, the FPC majority refused to take rate jurisdiction over the producers in the first place—in the original Phillips Petroleum decision by the FPC.[4] And after the U. S. Supreme Court held otherwise, on appeal, the FPC majority favored exemption by legislative amendment. On the basis of this background, the producers might reasonably expect that the FPC will not use its regulatory powers in a manner which will be unduly oppressive.

But there are just two things wrong with this pleasant picture of the FPC voluntarily developing, within the framework of its own present statutory authority, a workable solution to the problem of producer rate regulation: (1) How much authority has the FPC to do this which will stand up in court? (2) How long will it take to find out?

As the FPC reversal in the Panhandle Eastern Case would indicate, the U. S. circuit court for the District of Columbia feels it has a good deal to say about just how the FPC should exercise its "expertise" under the Natural Gas Act. The court virtually directed the FPC to use an original cost rate base in valuing gas production for rate making, or give a very good reason why not. Rehearing has been denied in that case, but it is almost certain that no further appeal can be completed to the U. S. Supreme Court before the end of the present term. That would put the highest court decision on this one question of rate base concept over until late in 1956 —more likely until spring of 1957.

It may very well be, as Chairman Kuykendall has indicated (and a good many lawyers agree), that the U. S. Supreme Court will eventually uphold the discretion of the FPC to vary the rate-making approach for producers and not be bound by any one formula (as the court has repeated several times in earlier cases). But the case-by-case method of trial and error will take a long time, if every new approach attempted by the FPC has to take the one-to-two-year delay of gaining judicial approval.

IF it had not been for this direct judicial supervision thrust upon the FPC in the Panhandle Eastern Case, there might be some broader basis for speculating about

[3] Hearings on the Independent Offices Appropriations for 1957, House subcommittee, February 20, 1956, at page 1727. Chairman Kuykendall suggested at another point of his testimony (hearings, page 1686):

> A farmer may own a farm on which gas or oil was discovered. He gets a royalty from it. If he should take his gas in kind and sell it, under the original cost concept, he would have no rate base, because he did not put a nickel into his gas investment. Would the courts uphold us if we were to say he should get nothing because he has no investment in it? This original cost theory could produce absurd results.

The House subcommittee chairman, Representative Thomas (Democrat, Oklahoma), obviously agreed. He said (hearings, page 1687):

> I would just as soon try to tame nine wildcats at one time. Here is your field out here, and some of the boys go out and pay so much for this lease and so much for that and some spend for this expense and others for that. Now, here is one that goes in and drills a dry hole, and that is going to disprove 2,000 or 3,000 acres all around here. This man put 3-X dollars into it and this man put 100-X dollars into it. How are you going to figure out the base value of that in the area around that dry hole which just proves the money he has put up? Somebody has to do a little guessing about it.

[4] (1951) 90 PUR NS 325.

Regulation Does Not End Enterprise

"UTILITY *regulation does not necessarily mean a cost rate base. It is true, utility regulation by a commission is generally a substitute for competition, which operates as a check in the unregulated field. But there can still be vigorous private enterprise under regulation. It does not have to be competitive enterprise. For that matter, just how much real competition is there in a situation where producers feel they must have the most favored nation escalator clauses? That is about as competitive as a European cartel system."*

what the FPC might do, on its own, to break the producer rate regulatory bottleneck.[5] There are any number of interesting possibilities, including the idea recently suggested by FPC Commissioner Connole, that "operating ratio"—the technique successfully applied to the fixing of transit fares and other transportation rates—might be considered as a substitute for the utility cost rate base concept. Yet, all these ideas would take time—too much time, perhaps—to work out under the uncertain case-by-case testing method already mentioned.

True, if there is no further legislation, that may well be the way the problem will have to be worked out anyhow. But the present stalemated situation is certainly a good reason for seeking new legislation at the next Congress, provided it is restricted to clarification and correction, and does not tempt another defeat by going as far as outright exemption. After all, the FPC has a stake of its own in clearing up a generally chaotic work-load situation caused by the accumulation of nearly 200 producer rate increases, as of this writing,

[5] For further indication that the District of Columbia circuit court of appeals considers itself pretty nearly a board of revision for the FPC, note the court's recent reversal of the FPC order permitting the reconversion of the "Little Inch" pipeline from gas to oil transport, in the Texas Eastern Transmission Co. Case, decided March 9, 1956. Note also the two U. S. Supreme Court decisions, both handed down February 27, 1956, which upheld circuit court rulings setting aside, on highly technical grounds, FPC gas and electric rate increase orders, respectively, in the Mobile Gas Service Corporation and Sierra Pacific Power Company cases.

without any definite idea of what to do about them.[6]

THERE is still another longer-range reason why (from the producers' point of view, at least) new corrective legislation might be desirable, rather than leave this problem to be solved within the framework of FPC discretion. That has to do with the FPC itself. Granted that the present FPC has been most intelligent and broad-minded in its efforts to cope with the particularly complex technical and economic problems of producer rate regulation, it is certain as day follows night that commission membership will change. We like to think of our system as a government by law rather than men, but what would happen if, as Exodus puts it, "another generation of rulers arose which knew not Joseph." If special protective standards are needed to guide the commission in regulating producers, it is understandable that producers would feel happier if they were spelled out in the Natural Gas Act, rather than left to the changing ideas of a future FPC majority.

What Are the Chances for New Legislation?

REGARDLESS of who sits in the White House next year, or what party controls Congress, new producer legislation will have to get started under a handicap. The handicap results from the political disclosures which have come about since the Senate passed the Harris-Fulbright Bill and more of which may be aired before the next Congress meets. There is no need to dwell, here, on the unpleasant ramifications, which should have nothing to do with the merits of new legislation. But it is only being realistic to consider that such a handicap for such legislation does and will exist.

CAN it be overcome? Assuming a most favorable climate for such legislation in Washington next year, a good bit of preparatory work will still have to be done. The main "condition precedent" will be for the producers and the distributors to reach common ground. If they do not do this, if the producers again make the mistake of disregarding the distributors' demands for some measure of protection against spiraling gas price increases, any further attempt to amend the Natural Gas Act is doomed, in the opinion of this writer. If there were any profit in examining past errors, it might be well to consider the unnecessary hostility that was created by some of the arguments circulated in support of the Harris-Fulbright Bill in the closing weeks of the congressional debate.

Efforts were made to show that producer regulation was unnecessary because producer price increases in the past have involved only a few cents out of the dollar the consumer has paid for gas. Inferences were made that the distributing utilities have been getting away with a much larger part of the consumer's dollar and were somehow evading effective regulation.

[6] Replying to questions by Representative Yates as to what the commission was going to do about these cases, Commissioner Digby said: "We have made no definite policy determination." (Hearings, page 1684.) And Chairman Kuykendall added, as to a specific question of how such rates would be fixed: "I don't think that anybody knows. I do not think members of the commission or the staff know exactly how we are going to do it." He noted, however, that two years had elapsed from the time the act was passed in 1938 until the first pipeline rate case was decided. The chairman thought that from 10 to 20 producer cases, now ready for commission decision, might be completed within two years from the date of the Phillips Petroleum decision (June 4, 1954).

SUCH insinuations were, of course, a reflection not only on the distributing utility companies, but also upon the work being done by the regulatory commissions, state and federal. Naturally, they resented it. There was, of course, no basis in fact for any suggestion that distributing utility companies have somehow been able to reap excessive or uncontrolled profits. Even the most cursory examination of the strict commission regulation which has been imposed upon the distributing utility companies would show the rigid restraints of rates limited to minimum allowable returns on minimum rate bases.[7]

Any substantial gas utility security investor knows this, from his own yield experience. The distributor company people know it. The regulatory commissions know it. Pipeline companies certainly know it. It is hard to understand why the producers were not sufficiently well aware of the true underlying facts to avoid any such arguments in favor of the Harris-Fulbright Bill.

Such arguments are reminiscent of the claims made, from time to time, by farm state Congressmen who wander into the House of Representatives restaurant or some other eating place in Washington and pick up a menu showing the price of a pair of pork chops at $1.75 or thereabouts. They display such menus on the floors of Congress and complain because the farmer is only getting a few cents a pound for pork on the hoof. It is a trick that has been tried so often that even the farm bloc Congressmen don't bother much with it any more. The economics of meat processing and distribution are too well understood. The economics of gas processing, transmission, and distribution—including all the fixed costs and overhead of local retail service—invite equal understanding.

[7] Counsel for Consolidated Edison Company of New York has said that that organization for many years has never earned on its gas business in excess of 3½ per cent.

THIS is only one of the points of unnecessary disagreement which can easily be resolved in preparation for a new unity of purpose to launch further legislation to ease the burden of producer regulation. Along this line one of the main troubles, in the past, has been the very lack of communication between the distributors and the producers. This is an inherent difficulty. It has been said that the gas industry, like Caesar's Gaul, is divided into three parts. But they do not have to stay that way.

The pipeline companies have been represented as being in the middle. But in the absence of producer regulation, the position of the pipeline companies has also served to keep the producers and the dis-

¶ "THE *plain fact is that the Harris-Fulbright Bill could not be passed again in this 84th Congress, as even the bill's supporters are ready to admit. More than that, it is very unlikely that the* SAME *sort of bill would get very far in the next Congress. That would depend, of course, on the elections next November. A realistic appraisal of the situation, however, strongly suggests that the producers will have to take something less than the Harris-Fulbright Bill, if they get any new legislation at all."*

tributors physically apart and ignorant of each other's problems.[8]

Again, this was nobody's fault—just the way the business was organized and grew up. But as a result there has been an absence of direct relationship between the real seller of the gas produced and the party chiefly responsible for its ultimate sale to the public—the distributor. Both have plenty of problems which might be talked over and even solved if the producers could get together directly with the distributors.

If distributors as well as pipelines and producer interests can get their feet under the same table and agree upon legislation that could be submitted to the next Congress, the chances of approval—early and prompt approval—would be much brighter. But to reach such a concordat—healing the unfortunate divisions of the past—concessions all around will be necessary. Let us consider, therefore, what might be done by way of leading these parties to a harmonious council table at which there could be negotiated such a bill, acceptable to all three branches of the gas industry and, most important of all, consonant with the public interest.

What Kind of a Bill?

BEFORE even approaching our hypothetical conference table, the participants might well consider discarding a certain amount of "excess baggage." There is a suggestion, for example, that producers just will not bow to any form of FPC regulation. They will go on strike. They will boycott commitment of reserves to the public supply. They will resort to intrastate markets.

The trouble with such arguments is the misconception that the very idea of utility regulation is somehow incompatible with private enterprise. As Senator Douglas (Democrat, Illinois) said during floor debate on the Harris-Fulbright Bill, an effort has been made to make "utility regulation" dirty words.

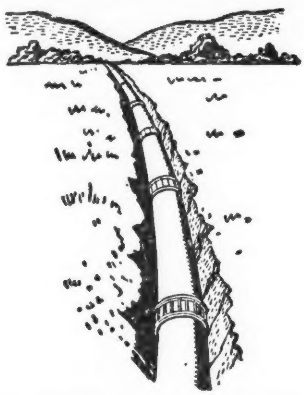
It is only natural for an industry which has never had regulation before to resist it. In past years the railroads and other utilities resisted it. Nobody *likes* to take medicine. But when the necessity for it became apparent, they submitted and the world did not come to an end for them. Defiance of federal regulation simply because it is federal regulation might, over the long range, get both the gas- and oil-producing companies into serious trouble with the American people.

Millions of homes now have gas-heating equipment and somehow or other the industry simply must, in its own enlightened self-interest, work out some way of seeing that a continued supply of gas goes to those homes. There is no quicker way of having the specter of public ownership raise its head in this field of industry than to talk about cutting off gas and letting American homes grow cold.

ANOTHER item of "excess baggage" might be too much reliance on the argument about competitive fuels. Even under the optimum conditions of the magical creation of a most efficient, modern plant with ideal load factors, it is hard to

[8] Randall J. LeBoeuf, Jr., New York attorney, identified with the distributing interests, told the mineral law section of the American Bar Association in New Orleans, November 29, 1955:

> In the past, at least, the pipeline companies have had no incentive to be an effective bargaining agent. They are in a sheltered position where they have been allowed to recoup any price they contracted to pay, plus a 6 per cent return on their capital investment. Also they were protected by 20-year contracts at both ends of their long lines.



Changing Economics of Gas Producers' Sales

"YEARS ago when natural gas was a glut on the market, some producers were caught with long-term contracts committing them to a sale of gas for many years for a few cents a thousand feet. Legally, they were stuck with their bargain, as long as such contracts remained in force. It might have been in the interest of good business for the parties to renegotiate some of these contracts, as the market subsequently changed with the development of the vast pipeline networks. But, in any event, the producers soon saw that they would have to protect themselves by a variety of measures from such contractual strait jackets. Among these measures were the spiral clauses and most favored nation escalator clauses, of which the distributors so bitterly complain today."

conceive of manufacturing gas at much less than 65 cents a thousand cubic feet, even in the areas of plentiful coal and oil supply. It is hard to conceive of financial interests seriously considering the reorganization of gas utility service on a manufactured gas basis under those or less favorable conditions.

At the same time, there is the very real problem of competitive fuel costs which could injure the distributors in expanding their business if gas rates continue to go up in some sections. On the opposite of this is the very real problem recognized by President Eisenhower in his veto message that some incentive must be provided for the exploration and discovery of new reserves.

AND so, in approaching this conference table there are plenty of real problems to be discussed, without the unnecessary complication of "excess baggage." But the main objective of the conference table would seem to boil down to simply this: What assurances do the producers need to provide the incentive of continued gas exploration, production, and commit-

ment of gas to the public supply? Against this, what assurances do the distributors need that producer rates will not increase so rapidly or chaotically as to threaten the very financial security of their operations? Within these two opposite limits the problems can be worked out. But the conferees cannot lose sight of the primary consideration—the public interest!

What Kind of Regulation?

WE have already seen that the biggest stumbling block of the status quo is the insistence in some quarters on a traditional cost type of regulation—rate base regulation. The producers claim that this is not realistic. There is much evidence to support that view. Only a minority could possibly favor regulation for the *sake* of regulation. The distributors, as far as this writer can ascertain, have never insisted on a cost base approach. Certainly the members of the Federal Power Commission have never insisted on it, as the record well shows.

Utility regulation does not necessarily mean a cost rate base. It is true, utility regulation by a commission is generally a substitute for competition, which operates as a check in the unregulated field. But there can still be vigorous private enterprise under regulation. It does not have to be competitive enterprise. For that matter, just how much real competition is there in a situation where producers feel they must have the most favored nation escalator clauses? That is about as competitive as a European cartel system.

Distributing utilities and their pipeline suppliers are captive customers, as the President pointed out in one of his press conferences, commenting on the Harris-Fulbright Bill. If they could pick up their pipelines and put them under their arms to go shopping among producers, there might be more validity to the stress on competition. It is the escalator clauses which have caused the distributors the most concern. They also have been concerned about the possibility of producers abandoning service without the authority of the FPC.

ONE of the things which our conference table will have to consider is the changing character of the gas industry. Some of the things which were required in former years may not be required today. Among these are some of the more volatile forms of escalator clauses.[9]

These are economic rather than legal considerations. Years ago when natural gas was a glut on the market, some producers were caught with long-term contracts committing them to a sale of gas for many years for a few cents a thousand feet. Legally, they were stuck with their bargain, as long as such contracts remained in force. It might have been in the interest of good business for the parties to renegotiate some of these contracts, as the market subsequently changed with the development of the vast pipeline networks. But, in any event, the producers soon saw that

[9] A "spiral clause" escalator automatically passes back to the producer a portion of any increase of rates which the pipeline may receive. Since the pipeline's rates are based on recouping its entire cost of gas, such a clause can entitle it to a second increase and so on and on.

A "most favored nation" clause gives the producer an increase if the same pipeline company or another one pays a higher price for gas to another producer in the same field. In other cases, the same "trigger effect" can be caused by contracts made by different parties in other and distant fields. A case has been cited of a small field only 20 square miles so interrelated by contract with other areas that negotiated prices were subject to change by subsequent contracts entered into in various parts of a different area totaling over 20,000 square miles in different states around the Gulf of Mexico.

they would have to protect themselves by a variety of measures from such contractual strait jackets. Among these measures were the spiral clauses and most favored nation escalator clauses, of which the distributors so bitterly complain today.

At our hypothetical conference table, it is not beyond the realm of supposition that the producers themselves will recognize that the time has passed for the need of the more volatile types of escalator clauses. And we might also suppose that the distributors will recognize that a producer, depending for his livelihood on a wasting asset, sold in an increasingly higher market, has a right to some orderly form of periodic price increase. When his well is exhausted, he is out of business, to that extent.

There are obsolescence and other factors. The producer cannot be expected to stick his head into a long-term commitment at a fixed price. Nobody else in business would do that these days. We have become used to periodic renegotiation of wage contracts. We know that the general trend of prices is up, not down, over the long range.

HERE, in brief, are some of the basic points for negotiation which might lead to a bill which would really protect the consumer's interest and gain at least some measure of concession from the other interests:

1. No abandonment of producer service once committed. To this extent, producers would have to remain under some continuing form of FPC regulation.

2. Producers should be freed of all regulation not actually necessary for the protection of ultimate consumers. Details of this, as to reporting, accounting, etc., would have to be worked out.

3. Negotiated contracts on producer rates should remain effective, subject to FPC supervision and adjustment upon complaint of any real party in interest—including distributors and consuming interests not directly parties to the contract. This would probably mean eventual supersession of contract rate fixing by FPC rate fixing. But contracts might well provide a convenient "presumptive" basis for FPC regulation, at least in transition.

4. Most favored nation and spiral escalator clauses should be re-examined with a view to elimination from all such contracts. But some form of orderly escalation might be considered.

5. As to rates not under contract or otherwise brought under direct regula-

¶ "THERE *will have to be some over-all regulatory control of producers,* AS SUCH*! The outright delegation of the regulatory function to contract bargaining between producers and pipelines cannot protect the public interest. As already stated, contracts in effect or still to be negotiated might be the basis for a presumption of reasonableness in the interest of expediting regulation. But they cannot be a substitute for regulation to the extent of placing the producers entirely outside the orbit of FPC regulatory control.*"

tory control of the FPC, statutory standards (discretionary or otherwise), reflecting area prices, fair market price, field price "operating ratio," or other variations from the cost rate base approach, should be considered with a view to including them as specific amendments to the Natural Gas Act. This would, of course, take a lot of negotiating to work out either a formula, or alternative standards.

6. There will have to be some over-all regulatory control of producers, *as such!* The outright delegation of the regulatory function to contract bargaining between producers and pipelines cannot protect the public interest. As already stated, contracts in effect or still to be negotiated might be the basis for a presumption of reasonableness in the interest of expediting regulation. But they cannot be a substitute for regulation.

Conclusion

It is obvious from the foregoing that these things cannot be accomplished without continuing FPC regulation. It is debatable whether they can be accomplished without spelling out the guides and standards pretty carefully in any amendatory legislation which might hereafter be proposed. But if all segments of the industry can get together, on some form of a mutually acceptable bill, that would carry out these objectives, the public interest itself would be automatically protected. And that, after all, is the paramount objective. *The public interest is not only the consumer's interest. It is also the investor's interest—investors in all segments of the gas, and to some extent the oil, industry. It also means the balancing of different kinds of consumer interests where they conflict with each other, whether by class or area. All of these interests represent people. All together, in proper proportion, constitute the public interest.* If such a bill can be drawn and agreed upon, it is quite likely that Congress will pass it and the next President will sign it.

The alternative? Not very promising! It would mean a continuation of a somewhat chaotic status quo, with the FPC trying to work out the problem on a tortuous trial-and-error basis. Eventually, even in that way, a solution could be reached. But whether the solution takes the form of legislation or experimental regulation, it is becoming increasingly clear that some measure of FPC producer regulation is here to stay.

"We have gone completely overboard on security. Everything has to be secured, jobs, wages, hours—although the ultimate in security is jail, the slave labor camp, and the salt mine. It is never too late to revive the personal practice of freedom. Stop relying on the great white father, who has nothing to give except what he took away from us in the first place.

"Uncle Sam is the biggest landowner, the biggest house builder, the biggest employer, the biggest banker and insurance company, the biggest consumer, the biggest borrower and the biggest lender, the biggest defaulter and the biggest spender, the biggest sucker, and the biggest meddler."

—Cola G. Parker,
President, National Association of Manufacturers.

Income Bonds Revisited

These are times when many public utility company managements are caught in the pressure of new financing requirements and regulatory consequences in the form of expected revenues. Should new financing take the form of bonds or stock? And what about that controversial security known as "income bonds"?

By PHILIP P. ARDERY and CARL E. ABNER*

When the hard-pressed chief executive of a utility company finds himself caught in a bind of increased costs and an apparently inflexible rate structure, what can he do? Of course, there are many answers to this, and the suggestions made in the later paragraphs of this article are not entirely novel, but they may show where the executive, having fallen into certain typical philosophical patterns, neglects to take full advantage of his opportunities.

To start out with and demonstrate the point, let us assume that H. Hardrow is president of the Apex Power & Light Company. His engineers and operations people have advised him that the curve of load growth of Apex is pressing so close upon the total generating capacity line that he needs a new 100-megawatt generator in his Riffle Creek generating station.

For a long time Hardrow has been watching the various lines on graphs in his office, heading into collision courses. The comptroller has been warning that some of the basic ratios of capitalization, operation, profitability, etc., need examination.

After discussion with his counselors in management and the board of directors, he is convinced that Apex Power & Light needs new capital for expansion. But he is told by his financiers, Bond Brothers, Inc., that they feel the issuance of additional stock at this time, preferred or common, is not feasible, and that unless he can come to the public with an improved picture of earnings he may pay a penalty for any debt securities issued. The "times coverage of senior securities" —that is, the number of times earnings

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cover the interest charges on bonded indebtedness and preferred stock—is low. And in the face of this fact, his interest requirements on new debt capital will be forced upward.

Carefully reviewing the situation, Hardrow comes to the conclusion that he should first go before the state public service commission. There he will seek a modest rate increase, to improve his earnings picture so that he may accomplish the additional financing without great difficulty.

Apex Power & Light files its application for a rate increase, without having fully accomplished the long and meticulous preparation that is required to set its own house in order and to condition the public mind.[1] It is immediately met with the strong opposition of the Commonwealth Ratepayers League, etc., etc. Hearings drag on, with Apex unable to effectuate interim relief, until, finally, one of the aggressive young attorneys for the commission begins to dig into the capital structure of the applicant.

NOW Hardrow is a man who rose to eminence pretty much on his own efforts. He is still young, but he well remembers the days of the great depression, when his father's business was caught overextended with debt and wiped out. Hardrow has a natural and an emotional resistance on the subject of debt. And so the young attorney for the commission, with the pressure of currently prevailing economic winds at his back, effectively seizes upon the fact that the capital ratio of Apex is 40 per cent of first mortgage bonds, 15 per cent preferred stock, bearing interest at 5 per cent of par, and 45 per cent common stock. For purposes of simplicity, we will say that the cost of Apex's servicing the preferred stock is $1,000,000 a year, which million, naturally, comes after taxes.

Apex Power & Light, of course, pays federal income tax, and in addition to that a state income tax, with credit on each for payment of the other. However, to simplify again, we will assume that the payment of income taxes generally amounts to 50 per cent of net revenues before taxes.

So the young attorney for the commission points out that if Apex had a higher ratio of debt instead of so much equity, the result would be to increase net revenues after taxes within the existing rate structure. This would calm the clamor of the Commonwealth Ratepayers League and various consumer-voter groups so as to let the commission off the hook.

THE commission attorney points out that the average long-term debt capitalization on class A and B privately owned electric utilities is running at approximately 50 per cent as reported by the Federal Power Commission statistics. He further points out that frequently it is normal practice for utilities to incur slightly higher debt ratios temporarily, in order to get over hurdles in an expansion program.

[1] It has been well said that such an applicant for a rate increase should above all, preliminary to filing an application, make sure it "has exhausted all other possibilities of correcting earning deficiencies and removing any prevailing dissatisfaction over service defects before going ahead with the case. . . .

"It is embarrassing enough, in the middle of a rate case, for the opposition to point to things which might have been done or steps which might have been taken to avoid the necessity for bringing the case. But it is much more embarrassing not to have considered such alternatives beforehand, and to have no comprehensive and convincing explanation to rebut such criticism when and if it is made." *"Conduct of the Utility Rate Case,"* by Francis X. Welch, p. 9, Chap I. Public Utilities Reports, Inc. 1955.

Here he cites the Georgia commission as having recently put its stamp of approval on a 62 per cent debt ratio in the case of the Seminole Telephone Company (10 PUR3d 202). And though he admits the case is not closely analogous, he alludes to the fact that the Securities and Exchange Commission recently allowed the Ohio Valley Electric Corporation to cut its 5 per cent of equity in half, leaving a debt ratio of 97½ per cent (9 PUR3d 584).

After considering all of these factors and listening to strong argument on behalf of the ratepayers, the commission adopts a hypothetical debt ratio, assuming a higher than actual proportion of long-term debt along the lines suggested by the attorney for the commission, and turns down the application for a rate increase. This it does in an order indicating that any Apex proposal to alter capital structure reasonably in accord with the hypothetical ratio will have its immediate approval.

When all this happens, Hardrow turns away sorrowing, feeling that he and Apex Power & Light have been seriously misunderstood. But in the days to come he thinks it over; he discusses it with his advisers in management, the board of directors, and his financial experts, Bond Brothers, Inc. After attenuated consideration he comes to the conclusion that he will recommend that the board call the preferred stock at $105, as permissible under the articles of incorporation authorizing the issue, and at the same time issue some sort of debt security. At this point he again is uncertain, for these thoughts bring him to the question: What sort of debt security should Apex Power & Light issue?

He talks to specialists in the field, wrestles mightily with the problem, and after some time one of the financial experts comes up with the suggestion that Apex consider issuance of some form of income bonds. Hardrow is interested, but quite doubtful. It is explained to him that currently these bonds are not a thoroughly familiar vehicle for electric or gas utility financing. However, they have been used considerably in the past, chiefly in railroad capital structures. Because of the manner of their use and the fact that they were prominent in many railroad reorganizations, it is admitted that they carry something of a psychological disadvantage in the public mind.

Bond Brothers, Inc., asks a little time to study the problem, and after some careful analysis it formulates its recommendation. The recommendation is based upon the conclusion that the possibility

¶ *". . . if a utility company is conceivably able to get rates established at a certain level on a showing of certain costs, and then is able to reduce costs, so as to increase its rate of return, there is less likelihood of demand for a rate reduction than there is that any effort to increase rates will be opposed. If the rates of utility 'A' are roughly equivalent to those of its neighbors 'B,' 'C,' and 'D,' then the public will usually say little, so long as 'A' does not ask for a rate increase."*

of relief at the public service commission is at least temporarily halted, and the further conclusion that some shifting of the capital structure is necessary prior to obtaining substantial new money. This shifting of capital must improve the "times coverage of senior securities," and enhance the earnings available for common dividends.

Bond Brothers contemplates use of first mortgage bonds, debentures, bank loans, and other forms of obligation, and concludes that some type of "income bond" is best suited to the immediate need. Then, extending his imagination somewhat more than normal, the senior member of the firm suggests that whereas the name "income bond" has some unhappy connotation, the term "revenue bond" is a little brighter.

ESSENTIALLY, the proposed securities will be contingent interest securities, whose servicing will be dependent on available revenues—like most municipal revenue bonds. It is observed that Apex has a record over the last twenty-five years of being easily able to support such an issue; furthermore, the curve of gross and net revenues is decidedly up—along with the general higher standard of living, population growth, use of electric power in the Apex area, etc. Thus, future prospects reflect little risk; but to reduce the risk still further, Bond Brothers believes these bonds should be cumulative, so the issuer will continue to carry the obligation of any interest passed.

One further improvement on traditional use of such financing is decided upon. This has to do with the manner of servicing the proposed "cumulative revenue bonds." It is observed that unlike many other similar issues, the interest should be payable quarterly.[2]

AND so, with these refinements on the old-style income bond, the house of Bond Brothers, Inc., recommends an issue of Apex Power & Light "4 per cent cumulative revenue bonds" paying quarterly interest. Hardrow is assured that the simple device of an income or revenue bond has few inherent limitations, and many inherent advantages. He is told that whereas such securities were often used in depression times to enable railroads in reorganization to wrestle with problems peculiar to those unusual times, circumstances now indicate a reappraisal of their use in quite a different context. Twenty-five years ago income tax considerations in such matters were small. Today where income tax takes better than one of every two dollars of net earnings, management has a solemn obligation to minimize the blow as much as possible. This was certainly the thought behind the public service commission's denial of the Apex Power & Light request for a rate increase.

Hardrow's financiers express the belief that the public is certainly well enough educated to appreciate an attitude of management to gain usable revenue by saving taxes. Thus, potential security holders could be sold income bonds in lieu of preferred stock. When properly explained, the present preferred and common stockholders will probably subscribe a substantial part of issue.

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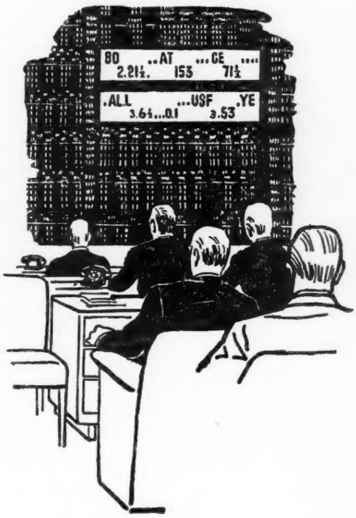
[2] See the bulletin "Security & Industry Survey," Merrill Lynch, Pierce, Fenner & Beane, for November, 1955, page 37, where in commenting on railroad income bonds it is said: "Yields in most cases are liberal, but since interest is payable only once a year, this type of media has not proved especially popular with the investing public."

Rediscovery of Revenue Bonds



"It might be questioned why a utility company such as Apex Power & Light in the stated hypothetical case chooses to issue income or revenue bonds rather than some other type of obligation, such as a second mortgage bond or debenture. It seems to us that the income bond is, as indicated previously, a type of security which, in the light of current economics, needs rediscovery. The need to minimize high taxes, together with management's normal desire to issue securities offering no great threat to the solvency of the issuer, constitutes, we think, a strong contemporary RAISON D'ETRE *for such securities."*

At any rate, Bond Brothers says the preferred stock can be called up in serials at the same time that the revenue bonds are issued. A plan will be worked up to give holders of preferred a slight advantage on the offering price to encourage them to swap, but arrangements will be made to sell publicly the bonds not subscribed. Thus, there can be an orderly retirement of preferred, concurrent with the issuing of the new bonds. Bond Brothers believes the issue should bear interest at 4 per cent at par, selling at a slight discount to preferred holders making the swap. The servicing requirement advantage—aside from tax advantage—of the bonds over the preferred stock will be in the vicinity of three-fourths to seven-eighths per cent.

All of this sounds very good, but Hardrow asks his consultants: "Will the public buy such a security?" the answer he gets is that past earnings experience and reasonable future projections give almost absolute assurance that these securities will be serviced just as regularly as a first mortgage bond. And after they have matured slightly on the market, the financiers believe they will pave the way for reasonable additional financing of similar type at appropriate intervals in the future.

To support the confidence in a successful sale, Bond Brothers brings to the attention of Hardrow and his executive committee the fact that the Milwaukee Railroad last year put through a plan to swap 600,000 preferred shares for debentures, effecting a $1,500,000-a-year saving in income taxes. Other similar arrangements were made by the Rock Island and the New Haven.

In turning over all this in his mind and discussing it with the board of direc-

tors and associates in management, Hardrow reaches several conclusions favoring the plan.

One of his conclusions is that the public can be advised, and the state public service commission as well, that Apex has accepted the decision rendered in the rate case, and has gone back and made an honest effort to increase net revenues without increasing rates in keeping with the commission's suggestion. Thus, if the plan fails, or even if it succeeds and the need for additional capital in the future outgrows this temporary relief, Apex will then be in a much stronger position to get relief from the regulatory authority.

Also, he feels that if the figures of the financiers work out, the cost of servicing the bonds will be substantially less than half what it costs to service the preferred stock, and the balance of revenues previously allocated to preferred can either fund retirement of the bonds, be added to surplus, or be used to increase the common dividend. This ought to assist in issuing additional common, when needed. With these conclusions he buys the plan, and on his recommendation the board of directors accepts it to be put into effect.

LET us turn now from our hypothetical case, which, as the movies say, is only coincidentally similar to any utility company or bond house, living or dead. Here, we might examine a number of other aspects of capitalization ratios, for a path through the dilemma of expanding costs within a fixed return rate structure.

But before we go into the business of ratios themselves, let us reflect a moment upon one factor which we think is sufficiently evident to carry weight with management in formulating conclusions in such matters. This is that in our experience public opposition groups are much more likely to oppose rate increases than they are to seek rate reductions. In other words, if a utility company is conceivably able to get rates established at a certain level on a showing of certain costs, and then is able to reduce costs, so as to increase its rate of return, there is less likelihood of demand for a rate reduction than there is that any effort to increase rates will be opposed. If the rates of utility "A" are roughly equivalent to those of its neighbors "B," "C," and "D," then the public will usually say little, so long as "A" does not ask for a rate increase.

Assuming the foregoing is true, then, as has been said, management is wise to pull out all stops to increase net revenues within existing rate structures and resort to rate increases only after all other attempts fail. If this philosophy is embraced and the public kept advised, the groundwork is better established to seek needed administrative rate relief.

SOME other items of consideration are these: Many commissions of late are adopting hypothetical debt ratios in rate cases, and rejecting applications for rate increases. This happens because, as the commissions say, the applicant, by having too low a percentage of debt, has unnecessarily compounded its tax problem and thereby reduced its usable revenues. A recent case on the point which clearly states the principle and cites a number of other leading cases is Re Mountain States Teleph. & Teleg. Co. (8 PUR3d 265). This case was decided April 15, 1955, rehearing denied two months later. Here the Idaho supreme court, in affirming commission action, said:

The commission made a computation of the earnings which would be required to finance the capital structure of the company upon the assumption of a structure of 45 per cent debt and 55 per cent equity, with a $3\frac{1}{4}$ per cent interest allowed on debt, and $7 per share dividend, and based upon a pay-out of 90 per cent of earnings. Using the percentage of its total annual earnings, which the company says is the portion required from its Idaho operation, the commission determined that the company's required net earnings from its Idaho operations is $1,247,691, compared to the company's claim for $1,-976,000. The commission's computation would also allow for the company as a whole $1,205,262 annually available for surplus, compared to an increase in surplus of $2,833,803 during the years 1946 to 1952.

At a time when federal income taxes require 52 per cent of net earnings, and the company's current expansion program involves what is possibly a peak or a high plateau in the cost of labor and materials, the commission was warranted in its consideration of the company's capital structure. Its action was not arbitrary or unreasonable, and is supported by precedent. (Citing cases.) (8 PUR3d at 274.)

The Idaho commission's hypothesis seems to assume a fairly low interest rate on debt and a quite high pay-out of earnings. However, without going into detail or extending the point unnecessarily, suffice it to say that many other commissions have adopted this principle of testing an applicant's stated net revenues against a hypothetical capital structure, in which the debt ratio was higher than actual. Many commissions appear to believe that there really is not only nothing immoral in carrying heavier debt in order to relieve the tax burden, but they seem to think it almost immoral not to do this, where the alternative is subjecting the public to higher rates. A good analysis of attitudes of various state commissions regarding hypothetical capitalization ratios is to be found in Chapter 14 of the book *"Ruling Principles of Utility Regulation—Rate of Return"* by Ellsworth Nichols, Public Utilities Reports, Inc. 1955.

Another factor which should be taken into consideration by certain utilities is that substantial tax relief has hitherto derived from accelerated amortization certificates. The permanence of this kind of relief is at least highly questionable. If one assumes, as fairly one may, that the need for most utility construction funds is great, and that revenues saved through accelerated amortization have hitherto largely gone into construction, then it would appear that an adequate substitute should now be found.

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It might be questioned why a utility company such as Apex Power & Light in the stated hypothetical case chooses to issue income or revenue bonds rather than some other type of obligation, such as a second mortgage bond or debenture. It seems to us that the income bond is, as indicated previously, a type of security which, in the light of current economics, needs rediscovery.

The need to minimize high taxes, together with management's normal desire to issue securities offering no great threat to the solvency of the issuer, constitutes, we think, a strong contemporary *raison d'etre* for such securities. One authority on finance, taking a firm position to substantiate this, says:[8]

> Theoretically, income bonds have advantages over preferred stocks and no important disadvantages. From the point of view of the purchaser their form supplies greater assurance of continued income, assuming that the earnings situation were the same for an income bond as for a preferred stock issue. The same kinds of protective provisions could be set up in the event of nonpayment.
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> From the corporation's standpoint there is the advantage that if the interest is not earned it need not be paid. If it is earned, we believe the issuer should have a fairly definite obligation to meet senior charges, considering the limited rate of interest that they bear. Under present tax laws the saving of income tax through the use of the contingent-interest form is so substantial that it will provide money for a liberal sinking fund. Thus the issuer can look forward to retiring most of the principal through tax savings and probably interest savings as well.

[8] *"Security Analysis,"* Graham & Dodd, third edition, McGraw-Hill Publishing Co. New York, New York. Pages 375-376.

Joining together the thought that it is now high time for rediscovery of the income bond, or better, the corporate "revenue bond," with the thought that too often management seeks rate relief before a commission without adequately examining its capital structure, we come to our conclusion that Mr. Hardrow of Apex Power & Light is taking the right course out of his dilemma. Whether the facts ultimately prove this to be true leaves us in the position somewhat of the narrator of "The Lady or the Tiger." As a result of Hardrow's choice, we predict appearance not of the tiger, Failure, but of the lady, Success.

"Taxes *alone amount to two-fifths of the total fixed charges of the power companies. This is what their customers pay for the support of government. The customers of the federal power businesses should pay the same share of the cost of government as customers of other businesses. When the federal government builds the power part of a federal dam and when it builds a transmission line, it and the local government forego the taxes they would receive if the facilities were privately owned."*

—Harold Quinton,
President, Southern California Edison Company.

The Right-of-way Man— A Friend Maker

The practice of utility company right-of-way purchasing has come a long way from the poker game type of negotiation which characterized such proceedings a little more than a decade ago. The modern utility right-of-way expert does not deal with property owners on the basis of hostile bargaining.

An interview with
FRANK E. RANDALL*
as told to James H. Collins

AMONG the many utility employees who make friends for their company, and keep them, the right-of-way man is seldom listed. Perhaps this is so because his work is not so well understood as that of people in other departments.

The right-of-way man is frequently regarded as an adroit salesman, even a high-pressure fellow, who goes out to persuade property owners to let the company place poles, pipes, towers, wires, and cables across their lawns, or fields. It is understood that property owners do not always like that. They may oppose it by organizing or blocking workmen. So, the right-of-way man must be clever in meeting opposition.

Also, it is often supposed that he uses secrecy to good purpose. Not a word must leak out about his company's plans for extended service. He goes from one property owner to another, keeping everything dark until the required number of signa-

*Right-of-way superintendent, Pacific Telephone & Telegraph Company, Los Angeles, California. For additional personal note, see "Pages with the Editors."

tures are secured, and then everybody regrets that greater concessions were not obtained.

Still another mistaken notion about his work is the idea that he can purchase rights of way when all other negotiations fail. What a regulated company will use for money is overlooked. Utility companies are widely supposed to be big and rich, even by some of the people who work for them, and when slickness and secrecy no longer avail him, he can always haul out his checkbook.

If this were a true picture of the right-of-way man, and his work, he could contribute little or nothing to the good standing of his company in the community. He would be an active creator of ill will.

In the first place, salesmanship in our work is a hazard, not an asset. We have to guard against it. Temptation is often strong to make statements that might "close the sale," but which would have bad consequences later. So, in considering recruits for right-of-way work, this temptation to "close" is a disqualification. And in our everyday work it is necessary to caution our staff against it.

As for secrecy, even if we knew any way to preserve it, its value would be small. As the saying is, "murder will out," but not so fast or surely as right-of-way plans. Property owners seem almost to know when we receive orders, and all about them, so openness is the rule, and it is really an advantage.

For the right-of-way agent represents the interests of property owners as well as those of his company, and their confidence in him is strengthened when they are sure that he has nothing up his sleeve.

It is surprising, even to fellow workers in his company, that he has a backlog of satisfied customers. Yet it is so. After a few years in this work, meeting and dispelling the doubts of property owners, subdividers, builders, and others, he should have accumulated friends who will assure his new "customers" that he is a square dealer. And a well-conducted right-of-way department should have the same reputation.

For example, quite a number of years ago, before war growth came to our region, one of our veteran agents was asked to negotiate a right of way across a large piece of farm land. This was to accommodate a portion of one of our long-distance communication lines. That was the most economical route for the company, and our engineers estimated that the construction savings, as compared with going along the boundary of the property, would permit paying for the direct route.

The land was in crops at the time, but the agent and the department took a long view of the situation. Suppose that land were subdivided. Our lines diagonally across it would be a disadvantage to the owner in selling. It was decided to run our lines the long way around. After the war the whole outlying area was subdivided for homes. The property owner's interests had been protected, and the company avoided an extensive relocation project.

The right-of-way man must never forget that he represents the public as well as his company. He cannot escape the fact that he is in a professional field. He owes an obligation to both, and must accept a full share of responsibility in constructive service to the community. He

is a public relations man *per se*. That status is inherent in his job. Not only that, it is thrust upon him by law, and should constantly be kept before him, and respected in his dealings. Otherwise, he is a hazard to his company.

In law, the statements of a right-of-way agent are regarded as those of an expert who knows what he is talking about, and a light statement, made to influence a property owner by salesmanship, could later be classed as fraud, misrepresentation, and deceit. For the agent is usually the sole negotiator between his company and the public, in these matters, and the public, in a given case, may be entitled to rely on his statements, and hold the company responsible later on when conditions affecting the deal are subject to change.

If a right of way were simply a piece of paper granting the company an easement over a particular piece of private property, the transaction could be considered completed when it was signed and delivered—and our work would be divested of many complications.

But such a piece of paper begins to live a life of its own from the day it is signed, because it concerns property, and property is subject to changes as the years pass. Questions arise that could not have been anticipated when the matter was negotiated. Statements made by the agent at that time are then subject to review—for details that we repeatedly impress on our personnel—for guidance in their work.

There is a legal distinction between *fact* and *opinion,* supported by court decisions in many fields.

A real estate agent, selling an apartment house, helped his sale by telling the purchaser that the place was a potential gold mine, adding that last year's income had been so much, and that the furniture was valued at so much. The new owner soon discovered that these values were misrepresented, and brought suit against the real estate man for damages.

The court held that such statements as "This property could be made a gold mine" were exaggerated opinions, and not a basis for damages. But when such opinions were buttressed by false figures of value, those were facts, and the purchaser had a right to rely on them, as statements coming from an expert, and to make a decision upon them.

¶ "Among *the many utility employees who make friends for their company, and keep them, the right-of-way man is seldom listed. Perhaps this is so because his work is not so well understood as that of people in other departments. The right-of-way man is frequently regarded as an adroit salesman, even a high-pressure fellow, who goes out to persuade property owners to let the company place poles, pipes, towers, wires, and cables across their lawns, or fields. It is understood that property owners do not always like that. They may oppose it by organizing or blocking workmen. So, the right-of-way man must be clever in meeting opposition.*"

In another case a young orange grove was purchased on the word of the seller that plantings of seedling trees, not yet in bearing, were worth so much. Until the trees came into bearing it was not possible to learn whether they were of good commercial varieties, or scrub fruit of little market value.

It turned out that the plantings were of inferior quality, and the purchaser sued the seller; and the court decision is an excellent illustration of complexities in these transactions.

Had the question been one of something with an easily ascertainable market value, such as wheat, or wool, there would hardly have been any doubt about value. But seedling trees were something about which it was not possible to obtain exact figures. Therefore, the representations of the seller were statements of fact, and not opinion, and the purchaser was justified in relying upon them, and making his decision accordingly.

In right-of-way dealings it is easy, and the temptation can be strong, to make statements that later, in court, will be pronounced matters of fact. An agent may say that a street is to be widened, or that a neighborhood is to be subdivided, or rezoned for a different use, and the property owner, assuming that the agent is familiar with such matters, might say, "Oh, well, if that's the case this line across my land doesn't greatly matter."

There is a fine distinction here, for if the agent said "I think the street is going to be widened," that would be a matter of opinion, not the statement of an authority, while saying that it was a certainty, something about which he was competent to advise, would transform it into a false statement, a fraud, and actionable.

Our best policy is to steer as widely as possible around such sleeping dogs, and safety for us lies in careful consideration of the property owner's interest, and in this policy we are backed up by the fair dealing policy of our company.

Recently, such a case arose from a right of way obtained years ago, on a piece of property outside a town, unoccupied, and of minor value. The company ran a conduit across this land. The ground was very hard, and the conduit was not laid very deep, and for years the deal was satisfactory to everybody.

However, the near-by town grew out into that neighborhood, a highway developed traffic, and the land became a good spot for a drive-in eating place. It was found necessary to lower the conduit, and the question arose as to who should pay the costs—the property owner or the company. The company decided that it was responsible. The conduit had not been laid deep enough in the first place. Due consideration of future possibilities for that land would have protected the owner's interests.

The seasoned right-of-way man considers such contingencies, becoming an expert on behalf of a property owner, and even putting the latter's interests first.

Questions of who is to pay all sorts of costs frequently arise in utility construction work, as in a recent case where our lines had to be relocated, and it was decided that the property owner should pay, because the relocation was for his convenience in making a sale of land. The property owner was entirely willing to pay, but the right-of-way agent thought that engineering estimates of costs, sev-

The Double Obligation of Right-of-way Men

"THE right-of-way man must never forget that he represents the public as well as his company. He cannot escape the fact that he is in a professional field. He owes an obligation to both, and must accept a full share of responsibility in constructive service to the community. He is a public relations man PER SE. *That status is inherent in his job. Not only that, it is thrust upon him by law, and should constantly be kept before him, and respected in his dealings. Otherwise, he is a hazard to his company."*

eral hundred dollars, were too high. He took this matter up with the company, and a further study reduced the bill to one-third the original estimate.

IN another case a manhole was needed in a private driveway leading to a small manufacturing plant, receiving modest lots of its raw materials, so there was little traffic up that driveway, no heavy trucks. Therefore, our engineers had decided that a light manhole cover would answer all purposes, and for several years it did.

But this little factory was a successful enterprise, and it grew, and bought raw materials by the carload, and heavy trucks were needed, and a stronger manhole cover.

Who should pay for it?

Superficially, as a question cropping up then, without regard to the past, the factory owner could be considered chargeable —it was he who needed better facilities, the lighter construction being quite satisfactory for the company's own service.

But the right-of-way man who had originally handled the case took a very different view. He thought that the company should in the first place have installed plant capable of standing up under such

changes. He took it up with our engineers, and was supported in his contention, and the company paid the costs.

It is through innumerable situations like these that right-of-way men make friends for the company, and accumulate followings of "satisfied customers" to whom they can refer in their current dealings.

THERE are times when, in our attention to the property owners' interests, we appear to lean backwards, and take sides against the company.

What we lean on is the broad policy of our company, which has grown out of long experience with right-of-way complexities in the telephone field. It has been found that the public interest is also the company's best interest, in the long run.

There are some kinds of right of way that are settled once and for all, such as those involved in highways and freeways. The city or state takes possession of the property, by purchase, and can condemn where owners hold out for high compensation or for any other reason, and no further complications arise.

Utility companies have the right to condemn, too, but we in the telephone business prefer to negotiate, and have found in the end that we practically always get through. It cannot be by the device of paying excess costs, either, because to pay more than it is worth is wrong, and the repercussions are serious.

THE popular feeling toward right-of-way agents was summarized some years ago in a magazine article titled "They Can Throw You out Any Time." [1] This article showed that the property owner is helpless in law when a highway, pipeline, or other improvement is to run through or take away his property, often his home. For under the laws of eminent domain, which began developing back beyond memory, people have feared and fought, and almost never won. They were bitter about it when the English barons forced The Magna Charta out of King John, at Runnymede, in 1215—he was noted for taking property for his royal projects.

The postwar power of eminent domain has grown formidable, according to this article, which estimated that, at that time, this country was building some 46,000 miles of highway annually, laying upwards of 10,000 miles of natural gas and oil pipelines, putting up new subdivisions that sweep away farms, providing highways, utility services, water, schools, and so forth, for home communities needed around new factories. In four years since 1950 Los Angeles county alone lost one-third of its farms, a drop of 3,719 from 11,973, and this trend is pronounced in the whole southern California area served by our company.

IN fact, we find that fair dealing, taking into account the other man's view, casts its shadow ahead, and opposition is not a normal condition. We do meet it sometimes, and it calls for all we have, but patiently and persistently we go to work on the problem, meeting suggestions here, shifting there, and gradually come out with a mutually happy result.

As an example, we had to get five miles of right of way, and had two miles under option. One owner finally signed, but at a higher price, because he proved one appraisal was too low. We went back with supplemental checks to the ones who had

[1] *The Saturday Evening Post,* May 24, 1952.

already signed up, because their land was of equal value. This was only just. It also helped us with some other owners, and, years later, we have a good reputation in this community.

People do not want to be disturbed. They picture poles marring the attractiveness of their neighborhoods, and trees being cut back or down, lawns being dug up for conduits.

"We don't want you here!" they say. "Take your poles and cables somewhere else—any place but here."

As for secrecy, that may be possible in acquiring many parcels of property, over a long period, for assembling a large site, but for us there is no such thing. Our own orders are most likely to be sudden, giving us little time, and the cat would be out of the bag when the first property owner was approached. The speed with which news spreads, and property owners organize for opposition, is characteristic of the grapevine everywhere.

OPPOSITION is best met by considering the property owners' interests. It is often based on their own misunderstanding of their interests. It is always to be expected, and no matter how strong it may appear, we rely upon explanation to meet it, and patience in arriving at an understanding. We will go back again and again, knowing that our case is sound, and confident that certain influences are working in our favor.

Where rights have to be obtained by purchase, the immediate reaction of the property owner is to hold out for as much money as possible, not let his neighbors get more than he does, to be the shrewd bargainer.

In dealing with business concerns we seldom have any difficulty, for they know values, and have expert advisers.

But the small property owner may have little or no experience in land transactions, nor any conception of values. Often a home is involved, the property of a widow, or elderly people.

In the interests of everybody, we start with an appraisal of property before beginning negotiations. An appraisal takes into account the many factors of value. It may be made by professionals, or our own trained appraisers.

The property owner probably has vague ideas of value. There may have been no recent sales in his neighborhood. He will have heard that this or that owner has been offered so much, or that he is naming a price below which he will not sell. He

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regards the city, or state, or utility company as rich, and seeking to get property for the lowest possible price. He sets his price high enough to be able to come down in bargaining.

An appraisal brings light into this situation. The owner learns market values of his own and neighbors' property. It is also something for us to work with. We show the owners that the appraisal is professional, and the appraisers competent and unbiased. Owners are able to compare values in their neighborhood. The feeling that others may get more is lessened.

We get all local rights of way free, and that is our biggest volume, but whether granted or not without compensation, the right-of-way agent has to live with his "customers" forever, and must be honest, fair, and reveal the facts.

What good would be a right of way on which the construction crews would run into an argument, or have to settle a subsequent complaint? Too, we want an approach of clear thinking, so we not only get through, but can come back with our heads up—it's good business!

Then, opposition at the start may be based on fear.

Picture a quiet country town where elderly people are living out their days, on little incomes, their children grown up and gone away.

Presently this town comes within commuting distance from a city. Young people move in. They have children of school age. There is only a little, old red schoolhouse, too small, and a firetrap. The newcomers project a modern school building.

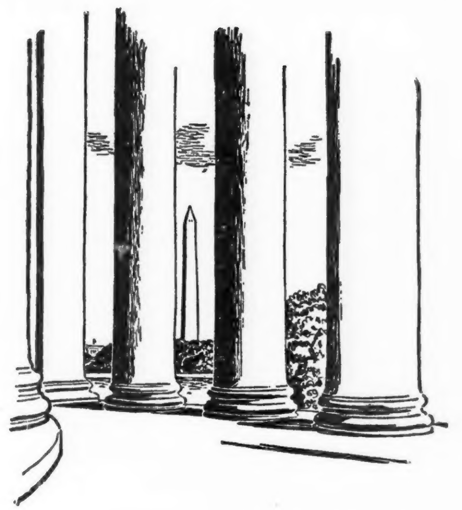
The oldsters are alarmed. What will this do to their taxes? Their little homes are threatened. They organize an opposition, and vote the project down.

At that stage it is hard to believe the school authorities who say that no American community has ever refused to provide modern school buildings, yet it is true. For the frightened oldsters have learned that they can control the situation. They will then examine cost and tax figures. The project is voted on again, and carried, and the oldsters are proud of the new school.

The massive postwar trek to the suburbs has brought this kind of complication in our work. "Then" and "today" photographs showing residence communities where yesterday there were only fields and groves, raise the farmer's taxes to the point where his production costs are prohibitive. Dairymen in one southern California area have lately applied for the incorporation of their district as a "dairy city," to enable them to control their own taxes, and avert subdividing. If approved, this new municipality will have a country population of people, and a metropolitan population of milch cows.

Opposition frequently clears away like a storm cloud. We have a saying to the effect that the first signature is hardest to get, but that then others come easily. The first signature comes from the owner who has seen the fairness of our proposition, and others say, "Oh, has he signed?" and rely on his judgment, signing too. They have learned that our proposition protects their interests as well as our own —which is the way it should be planned from the beginning.

Washington and the Utilities



House Approves TVA Spending

ALTHOUGH ostensibly cut off by the amount of $3,500,000 in its budget to begin construction on a fourth generating unit at the John Sevier steam plant, TVA won an important concession in the passage of the Supplemental Appropriations Bill for fiscal 1956. By general agreement, the House Appropriations Committee knocked out a budget request of $3,500,000 for this item, but the Republicans and Democrats had different reasons for doing so.

The net result, however, was a committee report which, in effect, allows TVA to use its own revenues for new construction purposes, including the John Sevier generating unit. This establishes a precedent for TVA to use its own revenues generally to expand plant facilities, otherwise authorized. By the same token, it is a step away from congressional control of TVA's purse strings, and it makes a good foundation for further steps, which TVA champions hope will be taken in the future, to put TVA on an independent revenue bond basis.

Five conservative Republicans, led by Representative Taber (New York), advocated complete denial of construction funds except for "legitimate use," meaning where the power needed is for defense purposes. "The proper choice," they said, "is to follow the course already adopted by Memphis, the first of the captive municipalities to take itself out from under TVA bondage." They said that power is always available through interconnecting grids from surrounding utilities, in the case of an emergency. "Any idea that we should permit TVA, an agency of our U. S. government, to issue revenue bonds which would become contingent obligations of the United States is unthinkable," the Republican minority declared. In addition to Taber this group consisted of Representatives Davis (Wisconsin), Jensen (Iowa), Phillips (California), and Hand (New Jersey).

THE Democrats, and public power Congressmen generally, had other ideas—when they knocked out the $3,500,000 specific appropriation. They approved a majority report that TVA "should use its revenues to the extent they

are available to add units at existing plants to meet the power requirements of its service area." They also approved a legal opinion, written by TVA Counsel Joseph C. Swidler, to the effect that TVA may use operating revenues to construct additional units at existing steam plants without prior congressional approval. The majority did not comment on revenue bond proposals, such as provided in a bill by Senator Kerr (Democrat, Oklahoma). Such bills are now tied up in both Senate and House Public Works committees. But it is clear that they felt a point had been won in gaining House approval of the appropriations bill in the light of the committee report.

What will the administration do about this? There is a chance that the House action may either be corrected or "clarified" in the Senate. Senator McClelland (Democrat, Arkansas) has some very definite ideas about TVA or any other government corporation using its own funds for construction purposes without congressional authority.

If the Senate should go along with the House, however, the administration may simply bide its time on any further opposition to the policy question of allowing TVA financial independence in using its own funds. The administration may leave that until a later date when the administration within TVA, itself, might have other ideas about spending such revenues, without congressional restraint or direction from the federal administration in Washington. It is apparent that the Eisenhower administration does not want to stir up any new ruckus on TVA power policy questions at this time.

MEANWHILE, an editorial attack against "holdovers" of key personnel in agencies such as TVA was launched by *The Knoxville Journal*, published in the TVA area. The newspaper suggested adoption of Hoover Commission recommendations which would place more agency positions in the appointive category.

The TVA directorate was cited as a prime example of reduced executive control over a federal corporation. There, *The Knoxville Journal* editorial observed, "two board members, or a majority, actually control this agency, and yet in theory at least the Eisenhower administration is responsible for how the big power monopoly is run."

FPC's Notice to Producers

THE Federal Power Commission has given notice of a proposed rule that will require independent producers to furnish the commission with a report of 1955 sales of natural gas. The report would be made on a new FPC Form No. 301. The commission (Digby dissenting) stated that it required such information for all sales regardless of their interstate or intrastate character.

The notice was in the form of a proposed rule, dated March 7th, and it invited any interested person to submit, on or before March 29th, data, views, or comments in writing concerning the proposed rule. Commissioner Digby said he thought it "would impose an unnecessary hardship upon the independent producers."

The form, which accompanied the proposed rule, was entitled "Independent Producers of Natural Gas—Report of Natural Gas Transactions for Year Ended December 31, 1955." It required the listings of natural gas sales and revenues clarified according to sales under FPC rate schedules, sales not included under FPC schedules. Data requirements on the total of all sales of natural gas, information on thousand cubic feet of amount sold, at

given pressure base, and revenues received, were also included in the form.

The FPC notice of the proposed rule gives the following information for the suggested form:

> Section 10 of the Natural Gas Act (15 USC 717i) provides that the Federal Power Commission may require every natural gas company to file such annual and other periodic or special reports as it may prescribe as necessary or appropriate to the administration of the act. Following the decision of the Supreme Court in Phillips Petroleum Co. *v.* Wisconsin (1954) 347 US 672, 3 PUR3d 129, the commission adopted rules and regulations governing the filing of rate schedules and applications for certificates of public convenience and necessity by persons engaged in the production and gathering of natural gas and held by the Supreme Court in that case to be subject to all the requirements of the Natural Gas Act. At that time the commission specifically exempted, until further order, the independent producers from the accounting and reporting requirements of the act. See Order Nos. 174, 174-A, and 174-B (19 FR 4534, 5081, 8807). The commission, however, has now found it essential to its proper administration of the act that each independent producer furnish to the commission a report of its sales of natural gas for the year ended December 31, 1955. With the exception of the proposed form here under consideration, the exemption from other reporting requirements alluded to above is proposed to be continued at this time.

Bills in Congress

SENATE Interstate Commerce Subcommittee hearings on a bill to encourage private utility investment in the nuclear power program will open April 17th. Effect of the bill (S 2643) would be to exempt utilities engaged in group development of atomic power facilities from holding company status under certain conditions spelled out in the legislation. Utility industry representatives have supported such an exemption in order that companies pooling assets to finance nuclear projects should no longer be subject to duplicate federal regulation with respect to such investment.

The measure is in the form of amendments to the Holding Company Act of 1935 and is jointly sponsored by Senator Pastore (Democrat, Rhode Island), chairman of the subcommittee, and Senator Potter (Republican, Michigan). Bills to accomplish a similar purpose have been introduced in the House by Representative Cole (Republican, New York) (HR 9743) and others.

BILLS to limit the third-party liability risk to private atomic industry in the event of a disaster have been introduced by Representatives Price (Democrat, Illinois) and Cole. Both are members of the Joint Committee on Atomic Energy. Under the Price Bill (HR 9701), the federal government would indemnify atomic power program participants against claims in excess of the amount covered by primary private insurance.

The Cole Bill (HR 9802) limits the liability of the atomic program licensee for damages caused by malfunctioning of the atomic facility to twice the original capital cost of the facility. Where claims exceeded such an amount, by the terms of the bill, the licensee would go to a federal district court with bankruptcy jurisdiction for an order limiting liability to such an amount and apportioning payment among claimants.

Wire and Wireless Communication

Rate Base Bill Loses

THE regular session of the New York legislature came to an end on the evening of March 23rd without final action on a bill sought by the New York Public Service Commission to change the statute governing rate making for telephone companies. The bill, which had passed the assembly, was killed in the senate finance committee by a vote of 13 to 4. In addition to the New York Public Service Commission, it had powerful bipartisan support from New York's Democratic Governor Harriman (who sent a special message urging passage in the final days of the session) and the state's leading Republican official, Attorney General Javits.

The bill grew out of a recent New York court of appeals decision overruling the New York commission in its refusal to accept fair value evidence in determining a rate base for the New York Telephone Company. Because of the commission's refusal to depart from strict adherence to original cost or a net investment rate base, the New York Telephone Company's original application for a rate increase of $68,500,000 was denied. Subsequently, a temporary smaller increase was allowed pending outcome of the court appeal and further proceedings.

The New York court of appeals, however, found that the state law required the commission to give consideration to current fair value—even though the rates of other utilities, such as gas and electric companies, are fixed under the terms of a different statute which does not spell out a fair value rate base requirement. The commission had asked the legislature to change the telephone rate-making statute to conform with the other laws.

AT a hearing in Albany, Keith S. McHugh, president of the New York Telephone Company, had given the senate finance committee some persuasive testimony against adoption of the bill. He said it would be a long step towards dooming telephone service to the "unhappy company" of the financially distressed Long Island Railroad and the New York city subway system. McHugh told the senate finance committee that the proposal "would work an immediate injustice on all who have invested in the telephone business in this state." He noted that in nine of the last fifteen years, the New York Telephone Company has failed to earn enough to cover its regular dividends.

The bill, known as the Milmoe Bill, was designed to repeal a section of a 1911 law that placed telephone companies and railroads in a different category from other utilities in rate making. Senate Finance Committee Chairman Austin Erwin (Re-

publican, Geneseo) was unsuccessful in his efforts to discharge the measure from committee.

Early in the afternoon of March 23rd, Senator Milmoe asked that the bill be killed at least for this session. "I believe the matter deserves more study and should not be disposed of in a hasty manner," he said.

FCC Chief Warns of Censorship

A DEFINITE possibility exists, according to an exclusive story by Edward J. Mowery, published in the *New York Herald Tribune,* that Congress will amend the Federal Communications Act to regulate the radio and television programming unless the industry eliminates certain abuses. The warning was credited to Chairman George C. McConnaughey of the Federal Communications Commission, who added that "Such action, of course, would be tantamount to censorship and we, in America, loathe any form of governmental censorship."

Chairman McConnaughey's comments followed by one day the bitter criticism of TV-radio advertising abuses by Lowell B. Mason, senior member of the Federal Trade Commission, who told the *Herald Tribune* that he will recommend a $1,000,000 expenditure for a "comprehensive" federal monitoring system for all broadcasts.

Striking at overcommercialization on radio and TV, Chairman McConnaughey declared:

> If the industry doesn't tighten up, police its own programs, and clean its own linen, it's inevitable that Congress will establish programming regulations by amending the act. There has been considerable agitation on the Hill for some time to step into the picture.
>
> I've been questioned about the matter by Senators who are incensed at back-to-back commercials and general overcommercialization.

THE FCC chairman recalled that one Senator said that a reversal in the commercial-entertainment balance now means that some listeners get three minutes of entertainment and twelve minutes of commercials. McConnaughey said he passed along the warning to the presidents of 43 broadcasting associations, who attended a recent meeting in Washington.

"They're very much concerned about the situation," he said, "and I believe they carried the message back to their home states. Actually, the FCC doesn't get many complaints from the public. People just won't take the trouble to write us their criticisms. And that, in itself, is a danger sign. If people are apathetic about complaining to us, they're also probably not bothering to tune in the stations." The official praised efforts of the National Association of Radio and TV Broadcasters for doing a "wonderful" job in trying to implement its code of good practice. McConnaughey went on to explain:

> But all broadcasters do not belong to the organization and the code has never been enforceable—from a legal standpoint—since its inception.
>
> It is my belief that the state associations (of broadcasters) will have to augment and supplement provisions of the code by policing their own members. There's nothing so potent in holding a group in line as a state organization which can act at the local level. They should make their own people toe the line.
>
> There's no doubt that something has to be done to impress upon the radio-TV industry that they are guardians of a public trust. . . .

Financial News and Comment

By OWEN ELY

Expansion Plans of Tennessee Gas versus Peoples Gas

For some time Tennessee Gas Transmission and other important U. S. and Canadian interests have been planning to build a major pipeline system to carry gas from the Alberta gas fields (with reserves estimated at 15-60 trillion cubic feet) to consuming markets in eastern Canada. The principal difficulty has been the heavy cost of the project, estimated at $370,000,000, and the fact that it would have to traverse an area across northern Ontario which is not yet sufficiently developed to use much gas.

Now this difficulty may be solved by a contribution from the Canadian government. On March 15th Canadian Minister of Trade and Commerce Howe introduced in the Commons a resolution to create a Crown corporation with power to borrow $130,000,000 to build the 675-mile segment of the Trans-Canada Pipe Lines across northern Ontario. Some opposition to the enterprise is indicated, and various time limits have been set up which may handicap the project. However, should it prove successful, Tennessee Gas proposes to set up an interchange arrangement at the New York-Canadian border near the present northern terminus of its own line. More important, Tennessee proposes that a new affiliate, Midwestern Gas Transmission, should build a 1,700-mile line from the Canadian border at Emerson, Manitoba, to the Tennessee system at Nashville, Tennessee. This line, which would probably cost about $100,000,000, would take gas from both Trans-Canada at Manitoba, and from Tennessee in the state of Tennessee, and deliver it to markets in the Red river valley of the Dakotas and Minnesota, in western Michigan, Wisconsin, Illinois, and Indiana. It would have a daily deliverability of 400,000,000 cubic feet of gas per day.

According to Tennessee's bond prospectus of September 14, 1955, the company has entered into a "precedent agreement" with Trans-Canada Pipe Lines, Ltd., providing for execution of a 25-year contract for the purchase of 200,000,000 cubic feet of gas daily at an initial price of about 25 cents per Mcf, with an option on an equal additional amount.

Department Index

Gardner Symonds, in an interesting address before the New York Society of Security Analysts on January 25th, made the following statement:

> In the middle western area of Minnesota, Wisconsin, and eastern North Dakota there's an annual requirement, as near as we can tell, unserved of about 91 billion cubic feet a year. If you add Chicago to it, and northern Illinois and the steel mill section of northern Indiana, you have another 97 billion feet, if you go to the same degrees of saturation as to house-heating and industrial load that have been accomplished in other places with similar competitive fuel prices. . . . Eastern Canada probably has a market on a firm basis of 155 billion.

Converted into maximum-day figures, his estimates for Minnesota, Wisconsin, and North Dakota were 278,000,000 cubic feet; for Chicago, northern Illinois, and northwestern Indiana 498,000,000 cubic feet; and for eastern Canada 563,000,000 cubic feet.

The equity setup of Trans-Canada is rather involved. It is said to be affiliated with Canadian Delhi Petroleum Ltd., a Murchison company; Canadian Gulf Oil, a subsidiary of Gulf Oil; and Hudson's Bay Oil & Gas, Ltd. (75 per cent owned by Continental Oil and 25 per cent by

Hudson's Bay Company). Regarding Tennessee's stake in the enterprise, Mr. Symonds, in his talk to the analysts, stated as follows:

> We have an option on a one-third interest in Trans-Canada and have covered them for pipe requirements for 1956 construction.

TENNESSEE'S proposed midwestern pipeline project seems to be competitive with development and expansion plans of Northern Natural Gas Company and Peoples Gas of Chicago. Peoples Gas needs substantial new sources of gas to take care of unsatisfied house-heating demands and aid natural growth, its Herscher Dome storage project having proved a little disappointing with respect to anticipated ultimate capacity, due to the necessity of recycling escaping gas.

Natural Gas Pipeline, a subsidiary of Peoples Gas, recently asked FPC approval for a major expansion plan which would tie the system's midwestern market into Rocky Mountain sources of natural gas. Peoples Gas now supplies its own customers and those of some other utilities with gas from mid-continent and Texas gulf sources.

The new project would add 435,000,000 cubic feet a day to the pipeline delivery capacity of the system, an increase of 40 per cent over the present capacity of 1,041,000,000 cubic feet. The 435,000,000 cubic feet would include about 250,000,000 from Colorado Interstate Gas, 100,000,000 which Colorado would buy from the Pacific Northwest Pipeline (now being constructed to bring gas from Canada to the Pacific Northwest) and 85,000,000 to be acquired from present sources adjacent to Natural Gas Pipeline. If the plan is approved early enough, gas might be flowing by the end of 1957. Cost of the project to Peoples' subsidiary would be about $80,000,000. Colorado Interstate would build a connecting line to join Natural Gas Pipeline. The FPC will, of course, have the final word on these various plans.

Gas Reserves Increase to 224 Trillion Cubic Feet

DESPITE possible discouragement resulting from the Supreme Court decision paving the way for federal regulation of independent gas producers, the industry continued to develop new reserves at a good rate last year. At the beginning of 1956 reserves achieved a new high level of 224 trillion cubic feet, an increase of 12 trillion cubic feet over a year earlier, according to a joint committee of the American Gas Association and the American Petroleum Institute. Extensions and revisions of previous estimates, and new discoveries of gas in 1955, again exceeded production, although the latter attained a new peak of 10 trillion cubic feet. This record production was about 700 billion cubic feet more than in 1954.

New discoveries of natural gas reserves in 1955 totaled 5.7 trillion cubic feet compared with 5 trillion cubic feet of new reserves brought in during 1954, while extensions and revisions of previous estimates during 1955 added 16.3 trillion cubic feet *versus* 4.6 trillion in 1954. Nearly 87.6 billion cubic feet of natural gas were added to estimated reserves in underground storage during 1955.

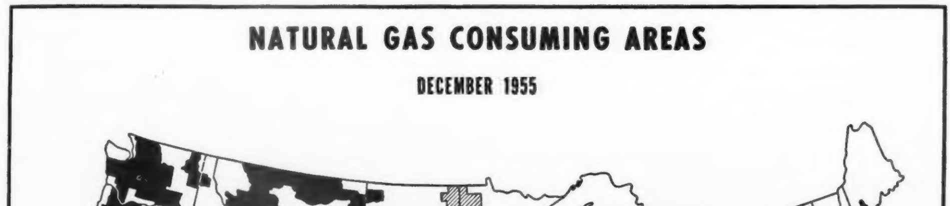
"It is often not possible to estimate the total reserves of a field in the year of its discovery," the statement said. "Satisfactory estimates can be made only after there has been sufficient drilling in the fields and, in some cases, adequate production history established. For these reasons, the reserves listed as discovered during any current year must be considered only as the reserves indicated by the drilling

in that year. The changes shown as 'Extentions and Revisions' reflect a study of all fields and pools, which are reviewed and revised upward or downward in each succeeding annual report."

A PROVED reserve may be in either the drilled or undrilled portion of a given field, according to the committee bulletin. When an undrilled area is considered proved, it must be so related to the developed acreage and the known field geology and structure that its productive ability seems assured under present operating practices, with no consideration being given to ultimate use. Since the estimates are made according to pools, recovery factors or abandonment pressures used in the calculations are governed by the operating conditions in each individual pool.

General Telephone Expanding Rapidly

GENERAL TELEPHONE CORPORATION can perhaps lay claim to the title of "fastest-growing utility." This is due not only to its own growth, but to its policy of acquiring other independent telephone companies. (There are estimated to be several thousand independents, although they have only about 18 per cent of all U. S. phones.) In 1937 General had revenues of only $13,000,000; by 1945 gross had increased to $32,000,000; and



in 1955, with the acquisition of the Theodore Gary system, it jumped to $351,000,000, including manufacturing and sales subsidiaries.

The record of increasing share earnings indicates that the present management has been successful in converting growth into favorable results for stockholders. Following is the postwar record, with adjustments for split-ups, the Theodore Gary system being included only for 1954-55:

Years	*Cons. Share Earnings*	*Divs. Paid*	*Approximate Price Range*
1955	.... $2.63	$1.31	45-23
1954	.... 2.09	1.07	25-20
1953	.... 1.77	.98	20-16
1952	.... 1.45	.89	16-13
1951	.... 1.17	.89	14-12
1950	.... 1.17	.89	13-11
1949	.... .97	.89	14-10
1948	.... 1.06	.89	13-11
1947	.... .95	.89	16-12

It is interesting to note that General's net income per telephone increased steadily from $2.36 in 1947 to $8.98 in 1954 (1955 not available), and the percentage earned on invested capital increased from 3.8 per cent in 1949 to 6.2 per cent in 1955. This reflected in part the success of President Power in obtaining needed rate increases, as well as his policy of expediting rate decisions through the use of "canned testimony," etc.

Last year's consolidated net income included nearly $22,000,000 from telephone subsidiaries and over $10,000,000 earned by manufacturing and sales subsidiaries. Thus about one-third of net income was from manufacturing and sales, this result being due largely to the acquisition of the huge Gary subsidiary, Automatic Electric Sales Corporation, controlled through Associated Telephone & Telegraph. (In 1954, before the merger, Gary's manufacturing and sales subsidiaries had net income of $6,633,000 compared with only $1,077,000 for General's subsidiaries.) General expects to obtain substantial economies by consolidating a large number of separate plant facilities of Automatic Electric in Chicago into one large plant.

General Telephone system at the end of 1955 had 2,567,000 telephones compared with the Bell system's 46,218,233, and 76 per cent of these were dial-operated, compared with 87 per cent for Bell. Net operating income for telephone and manufaturing subsidiaries, as related to revenues, compared as shown in the table below for the two systems last year.

White, Weld & Co. in a recent brochure made the following long-term projection of earnings:

> We estimate that in 1959 earnings may reasonably approximate $4.20 a share on the 11,500,000 shares outstanding after giving effect to the merger or $3.70 a share after allowance for estimated common stock financing. This estimate assumes continuance of current trends in business generally and for the two companies. It is based on projections for the telephone operating companies of growth, construction, financing, money costs, and rate of return which appear reasonable in relation to current conditions and to the past records of both companies, as well

	Millions of Dollars		
	Revenues	*Net Oper. Inc.*	*Ratio Net To Gross*
Bell System—Telephone Operations ..	$5,297	$721	14%
—Western Electric	1,853	58	3
General Tel.—Telephone Operations ..	210	37	18
—Manufacturing, Etc.	141	12	9

as a rate of earnings growth for the manufacturing and sales subsidiaries related to that estimated for their affiliated utility customers.

December Earnings Figures Very Favorable

EARNINGS statements for the month of December, as released by the Federal Power Commission for both electric and gas utilities, make favorable reading. Only the preliminary results for the electric utilities are available thus far, but they show increases in electric revenues of 11 per cent, in gross income of 16 per cent, and in net income of 17.4 per cent. (In earlier months net income had been showing gains of about 10 per cent over last year.)

Natural gas pipeline companies reported revenues for the month of December of almost $199,000,000, a gain of 16.5 per cent over last year (although sales to ultimate customers increased only 6.6 per cent and to other gas utilities 9.8 per cent). Gross income for the month was up 20.9 per cent and net income 53 per cent. Fixed charges were $8,610,000 compared with $11,670,000 in the previous year, the decrease being due to an increase in the Interest Charge to Construction-Credit and a sharp decline in "Other Income Deductions."

For the calendar year gas revenues were up 17.8 per cent while net income gained 29 per cent. However, it should be noted that the gas figures include some revenues collected under increased rates suspended by the commission but which are being collected under bond pending completion of rate cases.

Stock Market Forges Ahead

THE stock market since its last reaction in early February has forged rapidly ahead into new high ground, with the Dow-Jones industrial average currently around 513—compared with last year's high of 488 and the 1929 high of about 390. (Even the utility average is fractionally above the 1955 high.) Bond prices, on the other hand, have been somewhat reactionary, both in the municipal and corporate divisions; the yield on highest-grade corporate bonds during the past month has risen from 3.06 per cent to 3.19 per cent. The yield on high-grade common stocks (using the issues in the

NEW-MONEY OFFERINGS IN FEBRUARY, 1956

Electric Companies	
Bonds—Sold to Public	$ 47,261,000
—Sold Privately	600,000
Preferred—Sold to Public	33,024,000
Common—Sold to Public	20,829,000
—Offered to Stockholders	2,341,000
Total Electric	$104,055,000
Gas Companies	
Bond—Sold Privately	$ 3,790,000
Preferred—Sold to Public	38,800,000
Common—Offered to Stockholders	241,000
Total Gas	$ 42,831,000
Total Electric and Gas	$146,886,000

Source, Irving Trust Company.

Dow average) is now around 4.21 per cent so that there is still a spread of about one per cent between stock and bond yields. The stock yield has been bolstered by continued dividend increases.

While brokerage loans increased $141,000,000 in one week recently, indicating a possible increase in speculative activity, the total of $1,650,000,000 is still some $300,000,000 below the peak of last May; and of course the figures are relatively small as compared with the inflated borrowings in the 1920's.

BUSINESS activity is enjoying a new upsurge. The earlier letdown in residential building has been offset by a gain in nonresidential construction. While the automobile industry was pessimistic early this year, first-quarter registrations are expected to approach 1,500,000, the highest for any year except 1955. Dealers' inventories are still high but are probably now being reduced slightly. Most of the auto plants are now back on a 5-day week, although there is little overtime work. In the industrial field final settlement of the long Westinghouse Electric strike is a favorable factor. Unemployment in February was only 4.4 per cent of available workers, a record low except during the Korean War.

THE steel industry is booked solidly for the second quarter and it looks as though the industry could go through the balance of the year without any real letdown. Current operations are slightly in excess of theoretical capacity. Other metals such as aluminum and copper are also doing very well.

In recent years the cost of living has been held almost level because the drop in farm prices has offset the rise in prices of manufactured goods and miscellaneous items.

If food prices stabilize—as they might do if pending farm legislation gives generous support—we may be in for at least a moderate round of inflation. The Federal Reserve Board is on the job, of course, but may be reluctant to put on the brakes too sharply in an election year.

DATA ON ELECTRIC UTILITY STOCKS

Rev. (Mill.)			3/21/56 Price About	Div. Rate	Current Yield	Share Earnings* Cur. Period	Share Earnings* % Increase	Share Earnings* 12 Mos. Ended	Price-Earns. Ratio	Dividend Pay-out	Common Stock Equity
$230	S	American Gas & Elec.	59	$2.00h	3.4%	$2.99**	17%	Jan.	19.7	67%	32%
35	O	Arizona Pub. Serv.	24	1.00	4.2	1.37	8	Dec.	17.5	73	28
9	O	Arkansas Mo. Power	23	1.24	5.4	1.65	5	Sept.	13.9	75	30
27	S	Atlantic City Elec.	30	1.20b	4.0	1.55	10	Jan.	19.3	77	27
118	S	Baltimore G. & E.	35	1.60	4.6	2.02	17	Dec.	17.3	79	41
5	O	Bangor Hydro-Elec.	34	1.80	5.3	2.20	D10	Dec.	15.4	82	33
5	O	Black Hills P. & L.	27	1.28	4.7	2.15	8	Jan.	12.6	59	27
91	S	Boston Edison	57	2.80	4.9	3.40	9	Dec.	16.8	83	53
19	A	Calif. Elec. Power	14	.70	5.0	.91	36	Dec.	15.4	77	35
17	O	Calif. Ore. Power	33	1.60	4.8	2.08	17	Nov.	15.9	77	37
7	O	Calif. Pacific Util.	29	1.50	5.2	2.20**	2	Dec.	13.2	68	30
54	S	Carolina P. & L.	27	1.10	4.1	1.65	15	Feb.	16.4	67	32
26	S	Cent. Hudson G. & E.	17	.76	4.5	1.00	5	Dec.	17.0	76	33
16	O	Cent. Ill. E. & G.	27	1.40	5.2	2.07	38	Dec.	13.0	68	33
33	S	Cent. Ill. Light	55	2.60	4.7	3.90	30	Jan.	14.1	67	41
46	S	Cent. Ill. P. S.	31	1.60	5.2	2.40	25	Dec.	12.9	67	33
10	O	Cent. Louisiana Elec.	33	1.40	4.2	1.83	24	Dec.	18.0	77	31
30	O	Cent. Maine Power	24	1.40	5.8	1.77	10	Jan.	13.6	79	32
105	S	Cent. & South West	39	1.40	3.6	2.00	17	Sept.	19.5	70	36
10	O	Cent. Vt. P. S.	18	1.00	5.6	1.24	D6	Feb.	14.5	81	29
108	S	Cincinnati G. & E.	28	1.20	4.3	1.90	10	Dec.	14.7	63	39
6	O	Citizens Util.	16	.48h	6.0a	1.08	6	June	14.8	44	40

Rev. (Mill.)		(Continued)	3/21/56 Price About	Div. Rate	Current Yield	Share Earnings* Cur. Period	% Increase	12 Mos. Ended	Price-Earns. Ratio	Dividend Pay-out	Common Stock Equity
91	S	Cleve. Elec. Illum.	40	1.60	4.0	2.49	30	Dec.	16.0	64	42
4	O	Colo. Cent. Power	29	1.20	4.1	1.62	1	Dec.	17.9	74	24
45	S	Columbus & S. O. E.	34	1.60	4.7	2.18	34	Dec.	15.6	73	37
336	S	Commonwealth Edison	44	2.00	4.5	2.62	4	Dec.	16.8	76	47
10	A	Community Pub. Serv.	23	1.20	5.2	1.79	6	Dec.	12.8	67	49
2	O	Concord Electric	43	2.40	5.6	2.71	3	Dec.	15.9	89	61
65	O	Connecticut L. & P.	19	.98	5.2	1.13	—	Jan.	16.8	87	33
21	O	Connecticut Power	43	2.25	5.2	2.81	22	Dec.	15.3	80	42
474	S	Consol. Edison	49	2.40	4.9	3.12	4	Dec.	15.7	77	43
189	S	Consumers Power	50	2.20i	4.4	3.15	11	Jan.	15.9	70	41
61	S	Dayton P. & L.	47	2.20	4.7	3.24	12	Sept.	14.5	68	37
34	S	Delaware P. & L.	39	1.60	4.1	2.32	11	Dec.	16.8	69	32
220	S	Detroit Edison	35	1.80	5.1	2.45	17	Jan.	14.3	73	42
120	A	Duke Power	33	1.20	3.6	1.80	14	Dec.	18.3	67	54
89	S	Duquesne Light	34	1.80	5.3	2.34	9	Dec.	14.5	77	36
27	O	Eastern Util. Assoc.	36	2.20	6.1	2.51	9	Dec.	14.3	88	36
2	O	Edison Sault Elec.	16	.80	5.0	1.18	22	Sept.	13.6	68	49
10	O	El Paso Elec.	41	1.80	4.4	2.43	—	Dec.	16.9	74	37
11	S	Empire Dist. Elec.	30	1.60	5.3	2.17	8	Dec.	13.8	74	30
4	O	Fitchburg G. & E.	53	3.00	5.7	3.26	16	Dec. '54	16.3	92	53
43	S	Florida Power Corp.	47	1.60	3.4	2.30	15	Dec.	20.4	70	33
93	S	Florida P. & L.	44	1.20	2.7	2.05	29	Dec.	21.5	59	40
163	S	Gen. Pub. Util.	37	1.80	4.9	2.71	12	Dec.	13.7	66	39
6	O	Green Mt. Power	33	1.80	5.5	2.48	13	Dec.	13.3	73	37
47	S	Gulf States Util.	42	1.60	3.8	2.15	14	Jan.	19.5	74	30
21	A	Hartford E. L.	60	2.75	4.6	3.44	9	Dec.	17.4	80	47
5	O	Haverhill Elec.	41	2.15†	5.2	1.95	D35	Dec. '54	21.0	110	100
66	S	Houston L. & P.	47	1.40	3.0	2.55	16	Jan.	18.4	55	42
7	O	Housatonic P. S.	23	1.40	6.1	1.58	20	Dec. '54	14.6	89	46
23	S	Idaho Power	31	1.20	3.9	1.87	4	Dec.	16.6	64	35
78	S	Illinois Power	54	2.60	4.8	3.55	22	Jan.	15.2	73	35
37	S	Indianapolis P. & L.	29	1.40	4.8	1.92	20	Sept.	15.1	73	35
19	S	Interstate Power	14	.74	5.3	1.00	4	Dec.	14.0	74	31
27	O	Iowa Elec. L. & P.	28	1.30	4.6	2.11	18	Jan.	13.3	62	33
31	S	Iowa-Ill. G. & E.	33	1.80	5.5	2.39	15	Jan.	13.4	75	40
35	S	Iowa Power & Lt.	27	1.40	5.2	1.99	9	Dec.	13.6	70	35
30	O	Iowa Pub. Service	16	.80	5.0	1.02	5	Jan.	15.7	78	33
13	O	Iowa Southern Util.	23	1.20	5.2	1.67	8	Jan.	13.8	72	36
51	S	Kansas City P. & L.	41	2.00	4.9	2.49	18	Dec.	16.5	80	32
27	S	Kansas G. & E.	26	1.20	4.6	1.96	D2	Jan.	13.3	61	26
40	S	Kansas Pr. & Lt.	22	1.20	5.5	1.73	11	Dec.	12.7	69	27
37	O	Kentucky Util.	27	1.28	4.7	2.05	7	Dec.	13.2	62	35
6	O	Lake Superior D. P.	23	1.10	4.8	1.49	5	Sept.	15.4	74	37
5	O	Lawrence Elec.	29	1.75	6.0	1.40	D25	Dec. '54	20.7	125	63
87	S	Long Island Ltg.	22	1.00	4.5	1.41	22	Dec.	15.6	71	34
41	S	Louisville G. & E.	61	2.00	3.3	3.59	7	Dec.	17.0	56	35
7	O	Lowell Elec. Lt.	58	3.30†	5.7	3.04	D19	Dec. '54	19.1	109	65
9	O	Lynn G. & E.	30	1.60	5.3	2.03	1	Dec.	14.8	79	76
7	O	Madison G. & E.	45	1.60	3.6	3.20	2	Dec. '54	14.1	50	53
3	A	Maine Pub. Service	17	1.08	6.4	1.16	D14	Jan.	14.6	93	35
4	O	Michigan G. & E.	45	1.65h	6.7a	3.51	14	Sept.	12.8	47	31
144	S	Middle South Util.	31	1.50	4.8	2.23	5	Jan.	13.9	67	35
24	S	Minnesota P. & L.	29	1.40	4.8	2.13	24	Feb.	13.6	66	35
2	O	Miss. Valley P. S.	30	1.40g	4.7	2.53	7	Feb.	11.9	55	31
10	A	Missouri Pub. Ser.	13	.60	4.6	.91	1	Dec.	14.3	66	29
5	O	Missouri Util.	25	1.36	5.4	1.79	—	Dec.	14.0	76	36
31	S	Montana Power	42	1.80	4.3	3.03	17	Jan.	13.9	60	34
122	S	New England Elec.	17	1.00	5.9	1.22	4	Sept.	13.9	82	34
38	O	New England G. & E.	18	1.00	5.6	1.38**	2	Dec.	13.0	72	35
43	O	New Orleans P. S.	45	2.25	5.0	2.65	2	Jan.	17.0	85	39
2	O	Newport Elec.	22	1.00	4.5	1.40	16	Jan.	15.7	71	34
73	S	N. Y. State Elec. & Gas	40	2.00	5.0	2.79	17	Jan.	14.3	72	36
210	S	Niagara Mohawk Pr.	34	1.80	5.3	2.22	—	Dec.	15.3	81	34
75	O	Northern Ind. P. S.	39	1.80	4.6	2.73	14	Dec.	14.3	66	33
118	S	Northern Sts. Power	18	.90	5.0	1.16	8	Dec.	15.5	78	33
9	O	Northwestern P. S.	17	1.00	5.9	1.40	12	Dec.	12.1	71	25

Rev. (Mill.)		(Continued)	3/21/56 Price About	Div. Rate	Current Yield	Share Earnings* Cur. Period	% Increase	12 Mos. Ended	Price-Earns. Ratio	Dividend Pay-out	Common Stock Equity
110	S	Ohio Edison	53	2.48	4.7	3.58	19	Jan.	14.8	69	42
40	S	Oklahoma G. & E.	37	1.70	4.6	2.39	16	Feb.	15.5	71	30
14	O	Otter Tail Power	28	1.60	5.7	2.19	15	Dec.	12.8	73	35
443	S	Pacific G. & E.	52	2.40	4.6	3.32	15	Dec.	15.7	72	33
40	O	Pacific P. & L.	31	1.48	4.8	1.77	20	Nov.	17.5	84	29
109	S	Penn Power & Lt.	48	2.40	5.0	3.10	6	Dec.	15.5	77	29
210	S	Philadelphia Elec.	40	1.80	4.5	2.39	10	Dec.	16.7	75	40
29	O	Portland Gen. Elec.	25	1.10	4.4	1.69	14	Jan.	14.8	65	40
58	S	Potomac Elec. Pr.	23	1.10	4.8	1.43	34	Dec.	16.0	77	40
77	S	Pub. Serv. of Colo.	45	1.80	4.0	2.70	29	Dec.	16.7	67	38
273	S	Pub. Serv. El. & Gas	35	1.80	5.1	2.26	16	Dec.	15.5	80	37
67	S	Pub. Serv. of Indiana	39	2.00	5.1	2.35	D2	Jan.	16.6	85	33
23	O	Pub. Serv. of N. H.	18	1.00	5.6	1.22	10	Jan.	14.8	82	33
10	O	Public Serv. of N. M.	14	.68	4.9	.95	13	Sept.	14.7	72	31
23	S	Puget Sound P. & L.	27	1.20	4.5	1.51	10	Dec.	17.9	79	56
52	S	Rochester G. & E.	47	2.24	4.8	2.97	6	Dec.	15.8	75	36
14	O	Rockland L. & P.	19	.70	3.7	.83	36	Dec. '54	22.9	84	29
7	S	St. Joseph L. & P.	24	1.40	5.8	1.69	2	Dec.	14.2	78	41
41	S	San Diego G. & E.	19	.88	4.6	1.29	23	Jan.	14.7	68	40
8	O	Savannah E. P.	34	1.68	5.0	2.24	15	Nov.	15.2	75	36
8	O	Sierra Pacific Pr.	24	1.12	4.7	1.42	17	Dec.	16.9	79	28
154	S	So. Calif. Edison	53	2.40	4.5	3.27	10	Dec.	16.2	73	36
34	S	So. Carolina E. & G.	20	1.00	5.0	1.33	8	Nov.	15.0	75	28
6	O	Southern Colo. Pr.	17	.70	4.1	1.22	D2	Nov.	13.9	57	41
194	S	Southern Company	23	1.00	4.3	1.35	15	Jan.	17.0	74	29
16	S	So. Indiana G. & E.	32	1.60	5.0	2.22	D2	Jan.	14.4	72	33
4	O	So. Nevada Power	20	1.00	5.0	1.46	D2	Sept.	13.7	68	64
1	O	Southern Utah Pr.	17	1.00	5.9	.88	1	Oct.	19.3	114	39
3	O	Southwestern E. S.	20	1.08	5.4	1.64	2	Feb.	12.2	66	31
33	S	Southwestern P. S.	28	1.32	4.7	1.51	D2	Jan.	18.5	87	30
20	A	Tampa Elec.	29	1.00	3.4	1.37	12	Dec.	21.2	73	38
117	S	Texas Utilities	41	1.28	3.1	2.06	7	Dec.	19.9	62	36
35	S	Toledo Edison	14½	.70	4.8	1.10	20	Dec.	13.2	64	30
11	O	Tucson G. E. L. & P.	31	1.20	3.9	1.70	4	Dec.	18.2	71	40
114	S	Union Elec. of Mo.	29	1.40	4.8	1.70	3	Dec.	17.0	82	36
30	O	United Illuminating	51	2.55†	5.0	3.22	3	Dec.	15.8	79	51
4	O	Upper Peninsula Pr.	28	1.50	5.4	2.16	D19	Nov.	13.0	69	31
32	S	Utah Power & Lt.	52	2.20	4.2	3.10	16	Dec.	16.8	70	41
106	S	Virginia E. & P.	44	1.60	3.6	2.60	16	Jan.	16.9	62	34
23	S	Wash. Water Power	38	1.80	4.7	2.14	11	Feb.	17.1	84	35
127	S	West Penn Elec.	29	1.40	4.8	2.06	10	Dec.	14.0	68	29
64	O	West Penn Power	52	2.40	4.6	3.22	11	Sept.	16.1	75	33
11	O	Western Lt. & Tel.	33	1.80	5.5	2.70	32	Dec.	12.2	67	31
24	O	Western Mass. Cos.	42	2.20	5.2	3.09	5	Dec.	13.6	71	52
95	S	Wisc. El. Pr. (Cons.)	35	1.60	4.6	2.36	2	Dec.	14.8	68	39
37	O	Wisconsin P. & L.	26	1.28	4.9	1.72	13	Dec.	15.1	74	35
34	S	Wisconsin Pub. Serv.	24	1.20	5.0	1.74	15	Dec.	13.8	69	35
		Averages			4.8%				15.6	73%	
		Foreign Companies									
186	S	American & Foreign Pr. ..	15	$ .75e	5.0%	$1.72	D28%	Sept.	8.7	44%	48%
137	A	Brazilian Trac. L. & P.	7	—	—	1.26	D6	Dec. '54	5.6	—	70
63	A	British Columbia Pr.	39	1.20	3.1	2.05	37	Dec.	19.0	59	27
16	A	Gatineau Power	30	1.20	4.0	2.06	5	Dec.	14.6	58	30
11	A	Quebec Power	30	1.20	4.0	1.73	11	Dec.	17.3	69	48
45	A	Shawinigan Water & Pr. ..	75	1.80	2.4	3.48	30	Dec.	21.6	52	35

B—Boston Exchange. A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. D—Decrease. *If additional common shares have been recently offered, earnings are adjusted to give effect to the offering. Percentage change is in the net income available for common stock. **Based on average number of shares. a—Also regular annual 3 per cent stock dividend, which is included in the yield. b—Also 5 per cent stock dividend. c—Also 3/10 share of Northern Illinois Gas for each share of Commonwealth Edison. e—Includes 15 cents extra. g—Also 10 per cent stock dividend January 31, 1955. h—Also 2 per cent stock dividend. i—Also 5 per cent stock dividend. †—Estimated. #—Also occasional stock dividend.

What Others Think

After the Gas Bill Defeat—Producers View the Future

INDEPENDENT producer reaction to the gas bill veto has quite naturally ranged the color spectrum from the first whites of rage to the reds of anger and the blues of frustration. For many of them, the veto could be fairly said to constitute strange thought process and most unusual fact appraisal. But as the *Oil and Gas Journal* for February 27th stated editorially, "a stunned industry" has already begun "to pick itself up from the floor." As it does so, "blind rage and frustration over the veto of the gas bill gradually give way to reason and to coherent thought for the future."

The *Oil and Gas Journal* devoted article and editorial space in both the February 27th and March 5th issues to an analysis of producer prospects. The result was a revelatory bit of "do-it-yourself" psychoanalysis which gave a pretty good picture of present thinking in the production industry.

Less than ten days after the veto, work had already begun toward another attempt to enact natural gas legislation similar to the Harris-Fulbright Bill, according to the *Journal*. "But for at least a year the industry will: Operate in a state of confusion and uncertainty. Hold back on developing gas for interstate sale. Grope for ways of living under FPC regulation," the magazine stated.

It said that industry leaders were meeting to lay the groundwork for a new legislative attempt in the next Congress, and that support for such a move would immediately be sought. The two industry-wide groups which had worked for the bill—the General Gas Committee and the Natural Gas and Oil Resources Committee—probably would be continued, the *Journal* felt, but it thought they might be reorganized and reoriented. It said that "the new bill probably will be substantially the same as the one vetoed. Producers feel that they went as far as they can go in meeting consumer objections when they accepted the Harris Bill." This view was substantially modified in the following weeks, as a review of a later article will show.

The article went on as follows:

> Producers are encouraged by Eisenhower's statement that the present law will discourage incentives to explore and will limit supplies of gas. This vindicates the statements they have been making all along. But they are not considering pressing for reconsideration soon because, as one of them expressed it, no government official wants to be seen talking to an oil man.
>
> It is the black eye given the entire industry that worries oil men as much as loss of the decontrol bill.

They fear that the entire industry will be completely suspect in the public mind and that it will not be able to get favorable treatment or even a fair hearing in future legislation.

To offset this, some oil men are suggesting that the industry take a new look at its whole approach to public relations.

THE magazine stressed that the gas shortage, "which even the President foresees," could be felt within the year. Some gas men freely predict that interstate pipelines will find it extremely difficult to sign up new reserves, it said. The *Journal* writer understood that several substantial deals committing gas to interstate lines were ready to be signed immediately after the Harris Bill became law and thought that presumably these would be suspended. Beyond that he saw a trend toward less and less drilling for gas.

The article declared that many producers think state regulatory bodies should use their powers of conservation to throw roadblocks in the way of expansion of interstate gas sales. There are many things which these commissions might do to reduce the supply of gas available to interstate markets or to protect producers against confiscatory low prices, it stated.

The *Journal* writer said that although the Federal Power Commission had formulated "no definite program" for proceeding with regulation of producers, he found the commissioners so divided in their respective views that staff influence had become very strong. The staff, in his opinion, was thoroughly steeped "in the traditions of utility regulation and are unfamiliar with oil and gas production."

The article sketched in the probable lines of FPC approach to the regulatory problem, as a case-by-case development "couched in language sufficiently ambiguous to permit the commission to switch its direction later if expedient."

The article continued:

> Producers will fight FPC with every means at their command. Already some 40 cases are pending in federal courts, challenging specific FPC orders. These will be prosecuted and many more filed. The ensuing legal snarl may prove to be a further demonstration that the present law is unworkable.
>
> Producers who have no alternative to selling gas in interstate commerce can do little but rely on their lawyers and accountants when their prices come under FPC review. The intricacies of utility rate fixing—and the devices for thwarting it—are a fine art.

THE *Oil and Gas Journal* did see one possible way out, however. In its view, the FPC seemed eager to listen to suggestions for an alternative to the utility cost formula for determining producers' prices. It said that a utility's rates are based on wasting assets—a "disappearing rate base." "FPC recognizes that oil and gas producers must necessarily have a return based on increasing assets—that the cost of staying in business is a big item, and that they must plow back income to maintain the supply of gas," the article explained. How to write this into a price-fixing formula—how to cover exploration, dry-hole, and similar costs—is the big problem if the present law is to be applied, it said.

The *Journal* then made this unusual remark:

> A start toward a possible solution has been made by several producing companies, working separately on an economic approach which would develop a "cost-of-service" formula. No such formula has yet been presented to FPC in

a specific price case, but the idea is expected to pop up soon in some of the hundreds of cases now before the commission. Those who have been working on the formula say it promises to give producers legally a much higher wellhead price than many now get.

The *Journal* said two recent FPC cases in which it was hinted that the commission might consider the entire business of a producer in determining his costs as a basis for gas prices, instead of looking only at the costs in a single well or lease, might be "a ray of hope." This process, if carried to its logical conclusion, would permit an operator to throw in his costs of exploring for and producing oil instead of having to separate the costs of his gas sales, according to the *Journal.* This, it felt, would make every well a gas well in a sense, and would bring federal regulation closer to the oil business. But it might function "to prevent some producers' gas sales being priced at zero—or less—under a strict utility formula, and thus save the neck of the industry until new legislation finally is enacted."

PRODUCER industry hopes "for legislation freeing producers from federal regulation" soared with the President's announcement that he was willing to run for re-election, the *Oil and Gas Journal* stated in its March 5th issue. It saw in a second term for President Eisenhower assurance that producers would have White House support for natural gas legislation.

A Democratic President, who would come from the North where opposition to gas legislation is widespread, would not be likely to support a reversal of the Supreme Court decision in the Phillips Case, the magazine commented.

But it continued in a more pessimistic vein:

Even with this assumption, however, the industry has a long row to hoe. A sympathetic attitude in the White House is considered essential. But it guarantees no action and leaves the burden of decontrol still upon the oil industry.

Under even the most favorable political conditions, however, there are problems in the way of new gas legislation.

Leaders in the industry privately declare that two developments must come about if Congress ever again is to seriously consider it:

The three divisions of the natural gas industry must compromise their differences and present a "solid front" supporting a bill, backed if possible by the state regulatory bodies.

The FPC must deal carefully with the basic problems of producer regulation to avoid decisions which might destroy the chances of legislation.

THE *Journal* developed its first point by quoting an unnamed pipeline executive who was said to take the position that producers had to realize that they are part of the interstate movement of gas. They are the base on which billions of dollars have been invested in pipeline and distribution facilities. The pipeliner also felt that his own segment of the industry had to realize its dependence on the producer for the adequate supply of gas to satisfy the needs of distributors and consumers. Finally, he stressed that distributors should recognize that, through the pipelines, they are equally dependent upon the producers to carry out their obligation to provide service to the 27,500,000 consumers linked to their pipes.

The *Journal* said that producers anticipated a long delay before new legislation could be introduced in Congress with any

real hope of favorable treatment, because of the recent public resentment and bad publicity generated by the Case incident. It noted that "there is considerable thinking that it (new legislation) will not be along the lines of the Harris-Fulbright Bill."

A CLEAR statement of producer goals, and of the manner in which the *Oil and Gas Journal* thought they could be achieved, appeared in an editorial in the same March 5th issue. "Now that President Eisenhower has announced his intention to run for a second term," it said, "the oil and gas industry can make certain assumptions and lay definite plans regarding new legislation on natural gas."

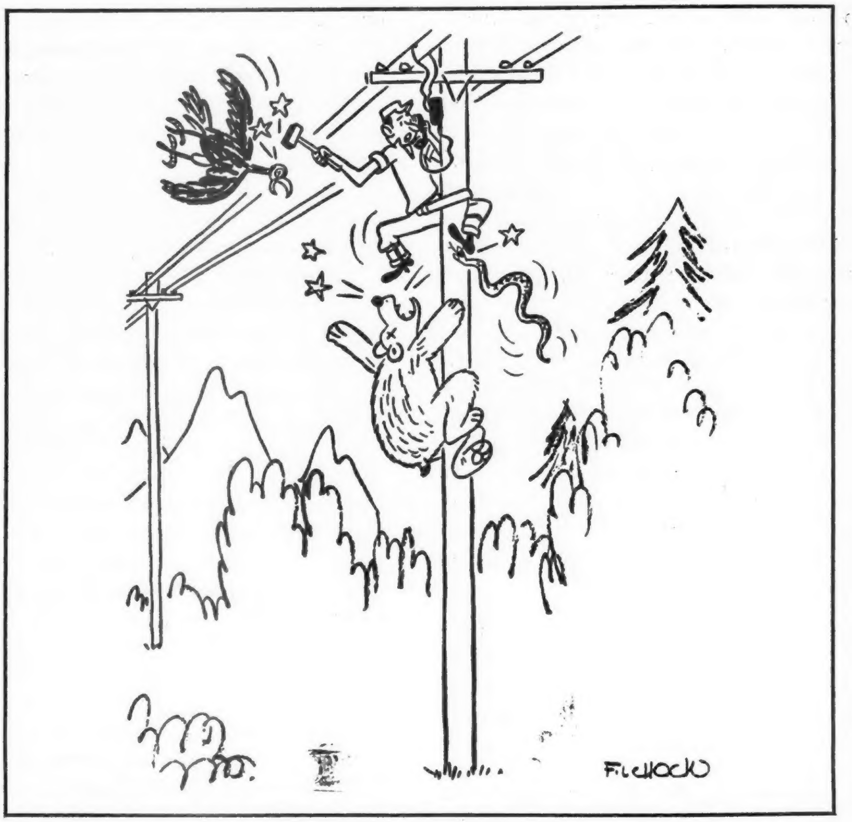
The editorialist assumed that the President might well be re-elected, but he refused to take the position that the President might sponsor and push a gas bill, despite his "kind words for it in his veto message." He added:

> The only safe assumption is that producers must win friends and influence people for a new gas bill by their own efforts, and that they must do it more effectively during the coming year than they have done in the past.
>
> New attitudes and new approaches must be adopted. The former tactics of righting the wrong of an unjust court decision and attacking opponents as misguided, selfish, or malicious must be modified. Producers need a lot more friends outside the White House and Congress than they have now or are likely to have next year, and friends must be won by wooing, not bludgeoning.
>
> Gas distributors must be won over to a realization that the present law is bad for them, too, and then producers and distributors must suppress their antagonisms and sit down to work out a mutually acceptable plan.
>
> Consumers' hysterical fears of runaway gas prices must be calmed by drafting new legislative wording that will meet the requirement of the veto message for "specific language protecting consumers in their right to fair prices."
>
> The industry's "bad press" in the East can be overcome to a considerable extent by erasing the ill will of the newspapers' readers plus a continued campaign of information and education.

IN so far as the *Oil and Gas Journal* may be said to portray accurately the currents of thought in producer country, this was the picture as of March 5th. The restrained optimism evoked seemed based on the possibility that by relying on the facts, but in presenting them differently, producers could win more support—enough to pass a new bill, perhaps next year.

Power and Politics

THE eighteenth annual meeting of the American Power Conference was held in Chicago's Sherman hotel late in March. Addressing the luncheon on the opening day (March 21st) was Harllee Branch, Jr., president of Edison Electric Institute and of Georgia Power Company. Branch chose as his subject "Power and Politics," as he said, "not for the purpose of engaging in a political harangue . . . but in order to review some of the spectacular gains made by the electric industry in recent months despite continuous political attacks and for the purpose of pointing out how the future of our industry will be affected by decisions which the Amer-



"SAFETY INSPECTOR'S CHECK, JOE, GOT YOUR GOGGLES ON?"

ican electorate will make in the political year of 1956."

Mr. Branch said that a new peak of prestige for our free enterprise economy has been reached under the leadership of this national administration because, in his view, it has dared, despite the sniping of demagogues and divisionists, to take a reasonably sympathetic, rather than a suspicious and hobbling attitude toward business and businessmen. But the EEI president directly went on to point out that, while a proper concern has been shown for the problems of business and industry in general, "it must be admitted that some appointive and elective officials have displayed a remarkably indifferent and indecisive attitude toward one of the most important segments of American industry; namely, the electric utilities."

He added:

> I ask myself and I ask you why the electric industry should today be treated as a political stepchild by anyone in either of our two great political parties.
>
> If our industry had been backward or negligent in fulfilling its obligations to the American people; if through lack of foresight or prudent planning it had

proved itself to be a drag on the American economy; if it had engaged in rendering a service of doubtful social value, then such an attitude would be justified and understandable. But none of these considerations apply. I do not claim, of course, that all of the men and women in the electric industry have always been either wise or good or generous. Nor can that claim be made for your own businesses or professions or for any other human enterprise, including governments. But I do say that our industry has met and is meeting the power needs of America with efficiency and economy just as it did under the emergency conditions of World War II when one government official said of our electric companies: "When we asked them for power we got *power* and not, thank God, alibis!"

Since World War II, Mr. Branch said, the free enterprise electric industry has carried on the greatest expansion program in its history. It has not only kept abreast, he said, it literally set the industrial pace.

It takes nerve, Mr. Branch stated, for the politicians to criticize the investor-owned electric industry, which has lowered its residential rates by 33 per cent and the over-all cost of all classes of electric service by more than 20 per cent during the past fifteen years, while the cost of government, which is the responsibility of the same politicians, has steadily risen—for example, 70 per cent in terms of federal taxes alone. In this connection, the EEI head pointed out that electric rates dropped faster in the twenty-two years before TVA was established than in the twenty-two years since that so-called "yardstick" came into being.

Today, Mr. Branch declared, the cost of electricity is only about one per cent of the average family's cost of living and only about six-tenths of one per cent of the value of our finished manufactured products. Food, on the other hand, takes 25 per cent of the average family's disposable income after taxes, and tobacco 2 per cent.

Mr. Branch said he was happy to report that the electric utilities and related industries are not "resting on their laurels."

Technological advances in the generation, transmission, and distribution of electricity are being made as fast today as at any time in the industry's phenomenal 75-year history of progress. For example, the largest generating unit now in service has a capacity of 260,000 kilowatts, the highest operating steam pressure is 2,400 pounds per square inch, the highest operating temperature is 1,100 degrees Fahrenheit, and the most efficient coal rate is three-quarters of a pound per kilowatt-hour. But, Mr. Branch further declared, there is now on order for operation within two years, a newly designed generating unit with a capacity of 325,000 kilowatts, steam pressure of 5,000 pounds per square inch, temperature of 1,200 degrees Fahrenheit, and a fuel efficiency of three-fifths of a pound per kilowatt-hour.

As a result of recent developments in the field of power transmission, Mr. Branch disclosed that the industry is now able to conduct as much as a million and a quarter kilowatts of power over a double circuit line. The speaker explained that this achievement will permit companies to increase by several times the amount of power which can be carried over existing rights of way, thus offsetting the increased expense and difficulty of obtaining new and adequate easements.

Mr. Branch also indicated that electric companies have never before been engaged in such extensive engineering and

marketing programs as those currently being carried on for the purpose of improving the distribution of electricity and its ultimate utilization by their customers.

Summing up private enterprise progress in the field of atomic energy, he stated that in the relatively short time since the laws and regulations of the federal government were amended to permit civilian access to fissionable materials, 44 investor-owned electric utilities have joined together to construct seven large and medium and two small atomic reactors. These reactors, he said, will have more than a million kilowatts of generating capacity and will involve the expenditure by the companies of approximately 300,000,000 free enterprise dollars.

He remarked that a number of other electric companies are members of atomic research, engineering, and planning groups such as the Rocky Mountain Group, the Atomic Power Associates of Kansas, the Atomic Power Associates of Iowa, the Nuclear Operations Group of Minnesota, the Carolina Atomic Power Study Committee, Atomic Power Development Associates, and the Atomic Power Engineering Corporation.

MR. BRANCH then got into the meat of his speech. He said:

I have mentioned these new developments for several reasons. In the first place, I thought we should be reminded that the investor-owned electric companies are not sitting by waiting for technological improvements to be made by others. On the contrary, they are pursuing their traditional rôle of participating actively in and, in most cases, are pioneering these advances. This was never quite so impressively demonstrated, I think, as in the field of atomic power. Here, the companies have proceeded despite restrictive and discriminatory governmental regulations, and notwithstanding abundant reserves of fossil fuels and notable advances in the efficiency of conventional generating plants have made atomic energy a much less needed and less competitive source of heat for power generation in America than in most other countries.

In the second place, I wanted to point out the notable contribution which industrious, resourceful, and creative engineers continue to make to the development of the electric industry and its related businesses. Here is an engineering job which will never be completed. Our industry's need for skilled and imaginative engineers does not diminish but steadily increases as shifting economic factors and new discoveries and advances in metals and other materials create new opportunities for and new demands upon engineering talent. The electric power industry never faced such a dynamic and challenging future as it does today—and never before has it offered such promising rewards for engineers and technicians.

But, most of all, I wanted to mention these achievements of the electric industry because it seemed to me that an industry which has so unceasingly modernized and improved its methods as to make its service an indispensable of modern living—and which has so steadily reduced its charges—would be treated with kindliness, if not with gratitude, by the legislators and administrators of a great democratic nation—and particularly so when it has managed, while engaged in continuous expansion, to pay nearly 25 cents of every dollar of its revenues for the support of federal, state, and local governments. One would think the politicians would hesitate to cripple and destroy an industry that last year contributed more than

$1.5 billion for the financing of governmental services. But the truth is that, despite its almost miraculous achievements and despite its spectacular plans for the future, the electric industry finds itself today under almost endless political attack and without any really determined and courageous defense by either political party.

IN his economic report to the Congress, President Eisenhower reiterated his belief in "economic progress through free and competitive enterprise" as the only means for bringing about "general economic improvement" and for strengthening the moral roots of industry, enterprise, and resourcefulness "from which still greater prosperity and well-being will spring in the future." Mr. Branch felt that most politicians, regardless of party, share the President's devotion to the free and competitive enterprise system, "at least in theory." But, in practice, "either because of timidity or fuzziness or in order to gain personal or political advantage," the EEI head insisted that they are too often willing to join or compromise with its enemies. This has been particularly true, he found, in matters affecting the investor-owned electric industry which, because of its essentiality, is "a natural first target" of those who would socialize all American industry.

He declared:

> The central, the overwhelming problem of the electric industry, besides which all other problems fade into comparative insignificance, is to halt the encroachment of these subsidized power groups.

Admiral Ben Moreell, chairman of the Hoover Commission Task Force of Water Resources and Power, said in a recent address:

> I believe that all public power which is subsidized by tax funds, whether on the federal, state, or local level, is economically and morally wrong . . . Federal power sets an evil pattern for all other segments of the economy in self-seeking competition for government handouts. These handouts are bought with votes; and when votes are thus prostituted, freedom is endangered.

The effort to governmentalize the power industry, as I have frequently said, did not begin with the New Deal in 1933, nor did it end with a change of national administrations in 1952. The advocates of socialization have insinuated themselves, to some extent, into both major political parties just as they have invaded most of the other organizations and institutions of our society. Hence the threat of governmental encroachment continues for our industry regardless of which party is in power. An understanding of this fact is important if the electric industry is to preserve its independence.

MR. BRANCH maintained that many inroads had been made by the supporters of subsidized power in recent months. As examples, he mentioned:

(1) The recent approval by the Senate Public Works Committee of the Lehman plan for the development of Niagara Falls by the state of New York, and the rejection of an alternative proposal for development by a group of investor-owned electric companies. The speaker said this approval was given notwithstanding the project was purely a power development, and notwithstanding the fact that development by the electric companies, unlike state development, would have kept the project on the tax rolls and would have

made the power available to customers throughout the entire service area of the five companies without favor or discrimination.

(2) The repudiation, "in the face of political attack by partisans of socialized power," of the Dixon-Yates contract by the very same federal officials who initiated the proposal, participated in the negotiation and drafting of the contract, minutely examined every detail of the transaction and who defended it for nearly nineteen months.

(3) The failure to press for enactment of the President's "partnership program" designed to relieve the taxpayers of the burden of raising upwards of $500,000,000 a year for the construction of federal hydroelectric projects which local interests, municipalities, power districts, and private electric companies stand ready to build.

(4) The opinion of Attorney General Brownell in the Clark Hill dam case which, if adhered to, "would give the co-ops and other so-called 'preference' customers a virtual monopoly in federally generated power." This opinion, according to Mr. Branch, "went beyond anything the New Dealers or Fair Dealers ever conjured up," and has had the effect of prolonging a controversy over the distribution of Clark Hill power which is already nearly eight years old.

(5) The recent proposals for the financing and construction of atomic power plants by the government and for sale of the output of those plants to subsidized power groups under an expanded preference clause.

(6) The proposals for financing not only the Tennessee Valley Authority but also the Rural Electrification Administration through the sale of bonds or other securities enhanced in value by prior appropriations of tax funds, so as to effectively nullify congressional control of their fiscal policies.

THERE have been a number of favorable developments, Mr. Branch felt, such as the recent vote in Stevens county, Washington, where the voters, "given a clear-cut choice between government-subsidized and free enterprise electric power, voted over 70 per cent for the latter." He also cited the FPC's approval of a license for the development of the Hell's Canyon site by the Idaho Power Company, and the licensing of an extensive development of the Coosa river by the Alabama Power Company. Mr. Branch admitted, however, that the danger is that while "counting these blessings" the investor-owned electric industry might minimize the threats that confront it from a dozen different directions.

One of the big questions in the year 1956, Mr. Branch felt, was whether there would be developed "a strong and cohesive and courageous demand" for the elimination of tax exemptions and other subsidies upon which "a vast governmental power empire is being created in America" for the benefit of a 20 per cent minority of power consumers at the expense of the 80 per cent served by the investor-owned electric companies. Another question, he said, was whether there was to be an end to power favoritism as between states and regions.

Mr. Branch closed his speech by again quoting words of Admiral Moreell:

> Whether the demagogues advocating public power are or are not Socialists is not important. What is important is that the price we pay for public power must be measured by the advance of Socialism in our midst and our concurrent loss of liberty.

Notes on Recent Publications

How to Hire Office Personnel. When hiring a new office girl, the employer is investing time and money in the hope that she will become a real producer for the organization. If she does not work out, she must be replaced—money has been wasted and unnecessary time must be taken up going through the whole process all over again.

There are various things that can be done to minimize the chances of a mistaken first choice. An excellent rundown of special recruiting, screening, testing, reference checking, and interviewing techniques which should prove helpful to the prospective employer of new help may be found in a booklet, "How to Hire Office Personnel," published by the Martin Publishing Company. A copy may be had without charge by anyone making request on their company letterhead to Martin Publishing Company, Howard G. Martin, publisher, P. O. Box 2632, San Diego 12, California.

Automation As a Basic Factor in Industry. Because of the widespread interest in automation today, the business information bureau of the Cleveland Public Library's current bulletin, "Business Information Sources," is devoted to that subject. It supplements a bulletin on automation published in 1953.

Emphasis is placed upon management, labor, and economic aspects of automation. Some technical developments are mentioned, too. It contains references to significant books, articles, proceedings, reports, bibliographies, directories and glossaries, films, and other data helpful to individual adjustments and a planned transition. Copies are available from: Business Information Bureau, Cleveland Public Library, 325 Superior avenue, Cleveland 14, Ohio. Mailing and handling charge, 25 cents.

Gas Industry to Play Vital Rôle in Atomic Age. In the foreseeable future, atomic energy will supplement but not supplant gas, oil, and coal. But, according to an American Gas Association forecast, based on latest available scientific and engineering information, the so-called "conventional" fuels (gas, oil, and coal) will play a vital rôle in America's expanding economy for many years to come.

Readers may find this and other predictions in a new AGA booklet, "Gas and the Atom," which answers 18 commonly asked questions to dispel some of the "myth, mystery, and misunderstanding" which it says have risen on the subject of atomic energy. "Gas and the Atom" visualizes the atom as a partner that will help gas, oil, and coal to meet tremendously increased energy requirements.

Copies of "Gas and the Atom" are being offered to local gas companies for distribution to schools, employees, stockholders, financial institutions, civic organizations, and other interested groups. Single copies are available without charge from the Public Information Bureau, American Gas Association, 420 Lexington avenue, New York 17, New York. Prices for orders in quantity are as follows: 2 to 999 copies, 7 cents each; 1,000—9,999 copies, 6 cents each; 10,000 copies or more, 5 cents each. All orders are FOB, New York city.

Federal Power Commission Issues Thirty-fifth Annual Report. The thousands of filings by independent producers of natural gas pushed the Federal Power Commission's work load to "record proportions" during the fiscal year ended June 30, 1955, the agency has reported in its thirty-fifth annual report to Congress.

The commission said that the impact of the U. S. Supreme Court's June 7, 1954, decision in the Phillips Petroleum Company Case was felt at all levels of operation during the 1955 fiscal period. As a result, the FPC declared, regulation of the producers tended to overshadow all other activities, even though operations in regulating other segments of the utility industries remained at or near the peak levels reached in previous years. By June 30, 1955, the commission had received a total of 10,978 producer rate filings and 6,047 certificate applications, according to the report.

Copies of the report may be purchased from the Federal Power Commission, Washington 25, D. C., at 65 cents per copy. The order number is FPC A-51.

The March of Events

Ebasco Holds Ninth Safety Seminar

A GROUP of twenty-three safety, operating, and personnel men, representing companies from the United States and Central and South America, attended the ninth Ebasco seminar in public utility safety in New York recently. The program was presented by Ebasco Services in co-operation with New York University Center for Safety Education. The two-week seminar was organized to cover in detail a complete safety program from inception to successful operation. Courses in effective speech, practical psychology, and supervisory training, as well as a problem-solving forum were also offered for their value in developing the managerial potential of the men enrolled in the seminar.

Courses at New York University were taught by Dr. H. J. Stack, Dr. W. A. Cutter, Dr. Leon Brody, and D. C. Heath of the Center for Safety Education; and Dr. Dawson Dean, personnel director of American Home Products Company. Ebasco instructors included W. T. Rogers, J. G. Sealy, and F. S. Cameron of the safety department; and G. Blair and E. Darrow, Ebasco fire protection engineers.

Supplementing the lecture and discussion periods were a series of field trips to observe safety programs in operation at Long Island Lighting Company and Consolidated Edison Company; the Army safety and driver training program at Governor's Island; and a demonstration of fire protection equipment at the C-O-Two Fire Equipment Company.

W. T. Rogers, Ebasco safety director and general director of the seminar, presided at graduation exercises held in the Downtown Athletic Club, and the diplomas were presented to the graduates by Dr. Stack, director of the Center for Safety Education.

TVA Report

THE Tennessee Valley Authority reported recently that during the calendar year 1955 it sold approximately 49.4 billion kilowatt-hours of electricity for which it received $207,316,000. The Atomic Energy Commission bought 27.2 billion kilowatt-hours (more than half of the total amount sold) for which it paid TVA $114,500,000.

TVA's financial statements are prepared on the basis of a fiscal year ending on June 30th; calendar year financial data are unofficial and are based on monthly statements.

Estimated net income for the calendar year was approximately $59,000,000.

The total power delivered into the TVA system during the calendar year was 54.4 billion kilowatt-hours. In addition to the

49.4 billion kilowatt-hours sold, 1.7 billion kilowatt-hours were delivered to the Aluminum Company of America under the Fontana agreement, 1.2 billion kilowatt-hours were delivered to other power companies, and TVA system losses and shop uses accounted for 2.1 billion.

Gross power revenues for the year were approximately $49,000,000 more than for calendar 1954.

California

Gas Rate Boost Cases Reopened

FURTHER hearings on seven cases where California companies have been permitted to raise gas rates to offset higher charges by the El Paso Natural Gas Company were ordered recently by the state public utilities commission.

The commission said it wanted to see whether its decisions in the seven proceedings, now ordered reopened, should be modified because of the February 27th ruling by the U. S. Supreme Court. These decisions hold, in essence, that contract rates charged by a company regulated by the Federal Power Commission may not be raised without agreement by the contracting purchaser and FPC approval.

The California cases involve the Pacific Gas and Electric Company, Southern California Gas Company, Southern Counties Gas Company, and the former Coast Counties Gas & Electric Company, which is now part of the PG&E system.

El Paso, which supplied gas to these companies, raised its rates in 1953 and 1955 and the increases later were passed along to California distributors with state commission permission. The commission now says that the "public interest requires that the proceedings be reopened for the purpose of determining whether the decisions should be modified."

Illinois

City's Utility Tax Upheld

JUDGE Charles S. Dougherty of circuit court last month upheld the validity of Chicago's new 5 per cent tax on gross receipts of Peoples Gas Light & Coke Company. The company said the ruling would be appealed to the state supreme court. It was planned that the decree which Dougherty would sign would provide the company's collections under the tax would be held by the company in a special fund so the money can be returned to consumers if the appeal is successful.

Shortly after the ruling, Illinois Bell Telephone Company filed a similar suit in circuit court challenging the 2 per cent tax levied on the gross receipts of Illinois Bell.

Commonwealth Edison Company, against which a one per cent tax was levied, indicated it would file such a suit.

If the tax were declared invalid—and the companies had not challenged the tax—the payments received from customers of the telephone and electric utilities that had already been paid to the city could not have been refunded.

Indiana

Stronger Utility Law Suggested

CHAIRMAN Warren Buchanan of the state public service commission declared recently it was likely that a bill would be introduced in the 1957 state legislature to tighten the state utility regu-

latory law and force utilities to limit their evidence in court appeals in rate cases to that they presented before the commission.

His comment was made as the commission, with sharp criticism of the utility's tactics, granted Public Service Company of Indiana a 5.35 per cent rate increase pending final hearings. Buchanan said the award was made to forestall another appeal to the courts by the utility, which serves almost a million customers in some 70 counties. He contended that the practice of running to the courts "strikes a blow at the orderly consideration of rates by an agency established to protect the public."

Buchanan said the contemplated new legislation would help protect the function of the commission as a body designed to assure the people of fair rates.

Following an order of the Hendricks circuit court, the state commission on March 9th granted a $3,600,000 increase in rates but did not specify how the money would be obtained. This was to have been determined by hearings. Last October the commission rejected the company's request for an increase of $4,200,000. The company then went into court and asked for a $6,000,000 rate increase. Judge Hadley found the company entitled to relief but did not tell the commission how much.

He directed it to write a new order within ten days.

Public Service has been authorized to apply the increase to all customers, even the Rural Electrification Members Corporation.

A total of $3,617,123 in new revenue was estimated by the commission.

Maryland

Suit Challenges Antistrike Law

Validity of Maryland's new public utility antistrike law was challenged in a suit filed in federal district court last month by the Baltimore Transit Company.

The law, which was used to end a 39-day tie-up of buses and streetcars in Baltimore, provides for state seizure of utilities to halt or prevent disruption of service because of labor-management disputes and calls for compulsory arbitration of such disputes where other settlement efforts fail.

It was when Governor McKeldin ordered compulsory arbitration of the dispute that the transit company filed its suit, claiming, among other things, that the law conflicts with the Taft-Hartley Act.

The company asked a temporary injunction restraining the state from enforcing the law, a permanent injunction, and a judgment declaring the law "invalid and unenforceable, as repugnant to the Constitution of the United States, and in conflict with the provisions of the said National Labor Relations Act." Hearings were scheduled for early April.

Mississippi

Utility Measure Clears Legislature

A utility regulatory bill, backed by Governor Coleman, cleared the final hurdle in the state legislature recently when the house and senate agreed to minor adjustments worked out by a conference committee. The measure brings electric power and natural gas companies under rate regulation by the state public service commission for the first time.

Nebraska

Court Upholds Right to Generate Power

THE state supreme court recently ruled that Consumers Public Power District has authority to build generating plants. The decision was reported to climax a 3-year struggle over Consumers' right to get into the power-generating business. In its ruling, the high court reversed a decision of the Platte county district court denying Consumers that right.

At the same time, the state supreme court left in effect present contracts giving Consumers and other power retailers much control over the operations of the Nebraska Public Power System.

In a decision written by Chief Justice Robert Simmons, the supreme court ruled that a 1946 contract requiring Consumers to buy substantially all of its electric power from NPPS "is contrary to public policy and hence illegal and void."

If the contract were valid and NPPS were to build a power plant to supply Consumers' customers the costs in interest rates would be "several million dollars above that which the production of power will cost Consumers and ultimately its customers," the court held.

The power squabble arose when Consumers refused in 1953 to support NPPS plans to build a power-generating plant in southeastern Nebraska. Consumers contended that it had a better credit rating than NPPS and could build the plant cheaper. NPPS argued, and the trial court decided, that Consumers' contracts with NPPS required Consumers to buy all its power from NPPS and prohibited Consumers from building a plant.

Rhode Island

State Atomic Plant Study Proposed

THE Rhode Island Atomic Energy Commission would be requested to give priority to investigate the possibility of a state-owned and state-operated atomic energy plant under a resolution presented last month in the state general assembly.

This should be done, the measure said, so that if this is advisable, the state will have the necessary data and plans to put into effect reduced cost and added service.

Texas

Court Sets Broad Natural Gas Rate-making Standards

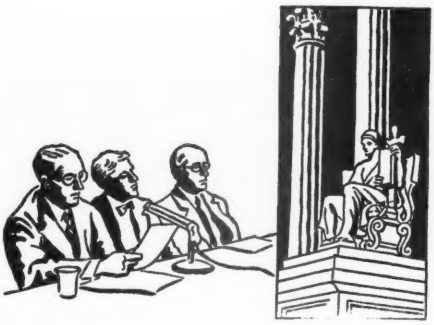
THE state supreme court last month laid down broad standards for deciding natural gas utility rates in reversing an Austin district court's decision in a dispute between Houston Natural Gas Corporation and the city of Alvin.

The court said rate makers should consider reasonable operating expenses, present fair value of property used and the company's public service, and a "reasonable net rate of return."

The district court had issued a permanent injunction against enforcement of rates prescribed by the state railroad commission, after the company and Alvin city officials were unable to agree upon a rate. The case then went back for a new trial.

The company said that replacement value should be considered in fixing rates. It estimated its property at Alvin to be worth $250,000 in 1954. The city said $41,956 was a fair rate basis and the state commission set the figure at $154,288.

Associate Justice Wilson's opinion held that the case needed further development.



Progress of Regulation

Trends and Topics

Managerial Efficiency and Rate Making

FUNDAMENTAL to the rate-making process in this country is the principle that a reasonable return must be allowed upon the value of property dedicated to the public use. This principle, founded upon constitutional mandate, has been firmly established by well more than a half-century of decisions and statutes. The compensation, then, that a public utility may claim, after providing for operating expenses, taxes, depreciation, and other proper deductions from revenues, is based upon the size of its investment.

Some writers have questioned the economic wisdom of this property-value basis of rate making on the ground that it fails to account for the additional value of good management. Our economic order, they point out, is built upon the idea of reward in profits for production, commensurate with the degree of efficiency exercised. Where, they ask, is the profit incentive to be found in a protected system of utility regulation which allows no greater reward to the efficient than to the inefficient operator, and which encourages wasteful and improvident administration by means of a guaranteed return? In this state of things, can the utilities compete with other industries for the best managerial talent?

Reward Commensurate with Ability

While perhaps some element of truth can be found in this argument, nevertheless a perusal of the decisions handed down through the years indicates that regulatory authorities have been sensible of the need for keeping able management in the utility field. Aside from giving verbal encouragement to efficiency, the commissions have repeatedly asserted a policy of rewarding exceptional managerial ability by allowing a higher than ordinary rate of return.

The Illinois commission said, for example, in an early case (PUR1918D 121), ". . . financial rewards in public utility enterprises should be commensurate with the ability displayed in their management . . ." And the Virginia commission (PUR1920D 305) pressed the point a bit further saying: "There

is just as much reason why operators of public utilities should be compensated for good business judgment and achievement as private businessmen, and, indeed, to proceed on any other basis would be to encourage incompetence and slovenliness in the operation of public service corporations, which would inevitably reflect itself in inadequate service to the public."

Similarly, the Wisconsin commission (70 PUR NS 5) has recognized that a reasonable share of the savings resulting from economy and efficiency of operation should inure to the utility. That share, it was said, must be sufficient to constitute an incentive to continued savings.

No Guaranteed Return

On the other hand, many commissions have allowed a lower rate of return where it appeared that the management was inefficient and wasteful. The Maine commission (74 PUR NS 23) declared that a utility must be efficiently and economically operated as a condition to the exercise of its right to impose rates that will yield an adequate return. Upon the popular idea, too often expressed, that public utilities are guaranteed a certain rate of return without regard to operational efficiency, the North Carolina commission (97 PUR NS 245) recently voiced the general attitude of regulatory authorities. It said: "The commission fixes a rate which it believes will give the utility under consideration an opportunity to earn a fair rate of return, but there is absolutely no guaranty that the utility will be able to make the rate of return fixed by the commission." (This point is discussed in the recently published book *"Rate of Return,"* by Ellsworth Nichols, p. 38.)

The Missouri commission (32 PUR NS 29) said, in effect, that a telephone company which by reason of ill management failed to provide adequate service was not devoting its property to the public use "in conformity with the spirit of the law governing such matters." This being true, it was not entitled to a return on the value of its property used in furnishing the service, and the commission threatened a reduction in rates. (A study of the obligation to render adequate service was presented in the November 24, 1955, issue of the FORTNIGHTLY, p. 903.)

Prudent Investment

Besides considering managerial performance in fixing the rate of return—and thereby ultimately in the establishment of rates—the commissions have also taken efficiency into account, by a kind of negative process, in fixing the rate base. That is, they have determined that imprudent investments cannot be allowed for rate-making purposes.

An expenditure, said the Idaho commission (PUR1924A 197), to be admitted to the earning base must have been reasonable and prudent at the time, and must have resulted in a real addition to the service plant. Pursuing the matter further, the New Hampshire supreme court (78 PUR NS 67) stated that the measure of a prudent outlay may be determined by a commission in fixing the rate base if evidence discloses inefficiency or improvidence. Even though good faith of management is exercised, a finding of improvidence is

not for that reason foreclosed but might warrant denial of a return upon investment found to be imprudent. If new construction should have been undertaken upon a smaller scale or was unjustifiably postponed to an unpropitious time, the rate base and the return may properly reflect the results of such improvidence.

While the regulatory authorities endeavor to avoid discouraging the initiative of utility operators by being unduly strict in excluding from the rate base investments made in good faith and in reasonable anticipation of future needs, they are nevertheless determined that consumers shall not be required to pay high rates in order to provide a return upon properties which have been improvidently constructed or acquired. Recognizing, however, a prudent limit upon the disallowance of imprudent investments, the New York commission held that the cost of an improvement that was actually used in the public service could not be withdrawn from the valuation of a utility merely because it became apparent, years later, that the expenditure was in fact unwise.

Costs of Operating Inefficiency

Managerial performance has been further considered by the commissions in a similar negative fashion in the disallowance of unnecessary costs resulting from imprudent policies. Moreover, improvident omissions by management to improve or expand service when reasonably required, or to reduce unnecessary expenses, have been found sufficient to warrant denial of a rate increase though the rate of return was manifestly low. Where costs are disallowed, however, "convincing proof," in the language of one commission, must therefore be produced.

Disclaiming any power to direct the actual operations of a public utility, the Alabama commission (PUR1930E 97) asserted that it did have authority to order rates that would be adequate under economical operating methods, whether or not the utility chose to follow such methods. In a case before the Michigan commission (PUR1920F 970), somewhat harsh though it might seem, a gas company's rate for gas was fixed at 10 cents per thousand cubic feet below the cost of manufacture where it appeared that the plant had not been economically operated and proper management had not been exercised. The Massachusetts commission (100 PUR NS 51) denied a rate increase to a telephone company which failed to take advantage of an available loan to modernize and extend its plant and thereby earn an adequate return under existing telephone rates.

But the Illinois supreme court (61 PUR NS 15), in overturning a commission order denying a rate increase to a transit company, described a point beyond which this process of penalizing inefficiency—or protecting the ratepayer—may not be pursued. That the financial plight of the company could be traced to mismanagement was held not to be material to an inquiry as to whether the operating expenses of the company exceeded its operating income for the purpose of determining a question of confiscatory rates. "Public utility rates," said the court, "which do not produce income sufficient to meet operating expenses are confiscatory" and present a case for judicial intervention.

Standard of Managerial Performance

Thus, applying both the affirmative and the negative process to the many and diverse factual situations which have been presented for decision through the years, the regulatory bodies have evolved a fairly workable standard of managerial performance for the operation of public utilities. While that standard is appreciably high, yet it is not unduly demanding. In this regard it was observed some years ago (PUR1922A 1) that if utilities are ever placed on a basis where their return is limited to a fair return under the most skillful management and made subject to further deductions by way of penalization "to the uttermost farthing" for every error in judgment, public utility investments will necessarily become so singularly unattractive that further development and expansion in the field will become impossible.

Review of Current Cases

Cost of Service Adopted as Basis for Wholesale Power Charges

THE wholesale rate charged by the Florida Power Corporation for power supplied to its subsidiary, Georgia Power & Light Company, was recently attacked by the Georgia commission in a complaint filed with the Federal Power Commission. The state commission maintained that the rate was so unreasonably high that the resulting retail rates of the Georgia company had "effectively retarded the social and economic development" of an important section of the state.

The rate complained of required the Georgia Company to pay a monthly demand charge of $1.50 per kilowatt of billing demand and an energy charge of 5 mills per kilowatt-hour, subject to a fuel adjustment clause. This produced an average charge of 1.095 cents per kilowatt-hour during 1954. In connection with a power-pooling arrangement under the existing rate, Florida Power was required to pay substantial sums annually for transmission services rendered by the subsidiary and for rental of the Georgia Company's production plant.

The state commission asserted that the Georgia subsidiary could have purchased power cheaper from Georgia Power Company under its industrial use rate or under its rate to municipalities and REA co-operatives. It was claimed that lack of arm's-length bargaining had resulted in higher rates to the customers of Georgia Power & Light than to the customers of Georgia Power Company in adjacent areas of the state.

The parent company and the subsidiary denied these contentions. They showed that the alleged average charge to Georgia Power & Light in 1954 would be reduced to .975 cents per kilowatt-hour if the related payments by Florida Power were properly considered in the calculation. They further indicated that the rates of Georgia Power Company were not applicable to the load required by Georgia Power & Light and were therefore not valid for comparison purposes. Nor could Georgia Power Company supply the full requirements of the distributing company, it was asserted.

After studies and investigations by the parties in co-operation with the staff of the

Federal Power Commission, the staff concluded that Florida Power's rate was not only not too high but was actually less than the cost of service (comprising in addition to all operating expenses, including taxes and depreciation, a fair return on a prudent investment base, including required working capital). It found that the related payments to Georgia Power & Light were excessive because made for transmission services no longer actually rendered and for other purposes no longer justified. The staff also determined that certain contract provisions preventing the Georgia subsidiary from receiving the full benefit of low-cost power purchased from other sources in Georgia, and provisions precluding an increase in such purchases, should be eliminated.

Florida Power, in order to settle the questions raised, as well as its own claim for a higher charge, without a hearing or further proceedings, offered to file a new rate not in excess of the staff's determination of cost of service. The other points decided by the staff, however, pertaining to the excessive related payments and the objectionable contract provisions, were to be incorporated into the new rate. The charge that would thus become applicable consisted of a demand charge of $2.29 per kilowatt per month of billing demand, and an energy charge of 5 mills per kilowatt-hour, subject to a fuel adjustment. The end effect of the proposed new rate was to raise somewhat the average charge per kilowatt-hour for power sold to Georgia Power & Light.

Cost-of-service Factor

The Federal Power Commission approved the staff's adherence to the use of cost of service as a criterion of the reasonableness of the charges for power and energy. It also agreed that the charges involved in the power-pooling arrangement, which was no longer actually effective, should be changed. Therefore, in view of the rate change agreed upon by Florida Power, the commission dismissed the Georgia commission's complaint and terminated the proceedings without instituting any formal rate investigation. *Georgia Pub. Service Commission v. Florida Power Corp. Opinion No. 290, Docket No. E-6628, February 27, 1956.*

Sale to Telephone Co-operative Denied and Bell System Company Authorized to Step in

THE Illinois commission refused to approve a sales contract between a small telephone company and a co-operative, which provided for the sale of franchise and facilities. The commission found a substantial number of persons in the community wanted and would pay for telephone service but had been unable to obtain it. Present service was grossly inadequate and the physical condition of the plant very poor.

The co-operative expressed a desire to modernize and improve the facilities, provided an REA loan could be obtained. Application for the loan had not yet been made, nor was there any assurance that it would be granted. The co-operative stated that if the loan should be refused, the plant would continue to be operated in its present condition.

Illinois Bell Telephone Company had made several offers to purchase the facilities, which offers had been refused. A survey conducted by Illinois in the area indicated that its service would be acceptable to the residents.

Since approval of the REA loan was indispensable to the co-operative's rehabilitation program, and since Illinois was ready, willing, and able to provide adequate service in the area, and was not subject to potential delays and difficulties, the commission disapproved the contract and authorized Illinois to purchase the properties and apply for a certificate to serve the area.

The present telephone company's certificate was revoked, effective as soon as it had sold its property to Bell or Bell's new plant had been constructed and placed in service. *Re Payson Farmers Teleph. Co. 42233, May 4, 1955.*

Saving of Franchise Ruled Inadequate Reason To Speed FPC Decision

DENYING requests by two gas companies for immediate final decisions upon applications filed under § 7 (a) of the Natural Gas Act, the Federal Power Commission indicated that sufficient reason for the requests was not shown. It appeared that unless an immediate decision relative to the gas supply of the companies were forthcoming, their local franchises would expire and the service in their territories would be taken over by municipal authorities. The FPC observed that the question whether the local distribution of natural gas is to be granted to a public utility company or to a municipality is a matter for local determination and would not be considered by the commission in the determination of § 7 (a) applications. The requests in this instance asked, in effect, for a severance of individual dockets and an omission of intermediate decision procedure. Aside from the consequences of the late filing of the requests, the commission indicated, adequate reason was not shown for the special consideration sought. *Re Panhandle Eastern Pipe Line Co. et al. Docket Nos. G-1705 et al. February 2, 1956.*

Telephone Company Borrows Funds from REA And Increases Rates

A SMALL telephone company was authorized by the Louisiana commission to borrow funds from the Rural Electrification Administration to be used to improve and extend service in its operating area, including conversion to dial operation. Authority to increase rates as soon as the service improvements have been completed was also granted.

The commission found that improved and expanded service in the area was necessary and desirable. Inasmuch as funds for plant expansion by small independent telephone companies are offered at a low rate of interest by the REA, it was deemed reasonable and appropriate that authority to borrow such funds for plant expansion, where feasible, should be granted.

Cost of Capital

The fact that utility rates must be sufficient to pay operating expenses, including an adequate provision for depreciation, and to provide a reasonable return on the company's investment, was recognized by the commission. The commission said,

with respect to the amortization of the cost of the improvements, that if the company meant thereby that it was entitled to rates that would provide a reasonable return on the investment plus amortization of the debt, it was not in agreement. Such a procedure, it said, would require ratepayers to share in the capital cost without participating in the earnings and would violate the fundamental concepts of regulation.

Over 80 per cent of the subscribers desired the proposed improvements and had expressed their willingness to pay higher rates for improved service. This fact was given careful consideration by the commission. *Ex parte Plain Dealing Teleph. Co., Inc. No. 6735, Order No. 6840, October 3, 1955.*

Accounting Method Prescribed for Accelerated Depreciation and Amortization

In separate opinions upon applications by an electric company, the Maine commission prescribed accounting procedures for the federal income tax effects of accelerated depreciation and accelerated amortization of emergency facilities under §§ 167 and 168, respectively, of the Internal Revenue Code of 1954.

The commission observed that by increasing depreciation deductions (thereby reducing taxable income and the tax thereon) during the early years of property life and decreasing deductions (thereby increasing taxable income and the tax thereon) during the later years, the effect of accelerated depreciation and amortization is simply to defer the payment of federal income taxes. This is true, it was pointed out, because the aggregate tax payable over the life of the property affected is the same whether an accelerated or straight-line procedure is applied.

Discriminating Expense Treatment

But to treat accelerated deductions as a part of normal expenses, said the commission, would result in higher customer charges during the early years of service life and lower charges later, which would be discriminatory as against present customers. Conversely, a reduction of expenses in the early years by crediting tax deferments to that account would be offset by higher income tax expenses during service years, an unjust discrimination against future customers. The company was therefore required to continue to provide on its books for depreciation of property in the normal manner without change by reason of adopting accelerated depreciation or amortization for federal income tax purposes. It was further required to report annually with respect to its deferred tax reserve.

Accounting Entries

For the early years of service life when depreciation deductions for federal income tax purposes will be greater than under the straight-line method, the company was directed to charge to "Provision for Deferred Federal Income Taxes" and credit to "Reserve for Deferred Federal Income Taxes," the amount of the resulting tax reduction. For the later years when deductions will be less than normal, the commission prescribed that the amount of the resulting tax increase be charged to the deferred tax reserve account and credited to "Federal Income Taxes Deferred in Prior Years." *Re Maine Public Service Co. U. No. 2220, January 26, 1956; Re Maine Public Service Co. U. No. 2221, January 26, 1956.*

Electric Company Service in Co-operatives' Territory Upheld

An order of the Utah commission authorizing an electric company to extend its lines into the territory of several electric co-operatives was upheld by the Utah supreme court.

In the proceeding before the commission, the co-operatives did not offer evidence as interested persons on the question of public convenience and necessity but sought, as public utilities, to protest the company's application on the ground that they were then serving the territory in question and were able and willing to meet all foreseeable demands for electric service.

The court, however, affirming the commission's view, ruled that the co-operatives were not public utilities and had no standing, as such, to protest the application. Consequently, upon finding a need for electric service in the territory, the commission had authority to allow the company to enter the area and provide service, notwithstanding the claims of the co-operatives to prior rights.

The co-operatives, it was noted, were nonprofit organizations serving only their own members. They attempted to show, nevertheless, that they served the public generally and were therefore public utilities, pointing to an agreement with the Rural Electrification Administration which provided that they should serve all persons who might apply and who met the requirements for service. But in order to qualify for service, an applicant must become a member. Since the co-operatives could not legally be required to serve the public generally, said the court, they were not public utilities. *San Miguel Power Association et al. v. Utah Pub. Service Commission et al. 292 P2d 511.*

Philadelphia Utilities Reimbursed for Relocation Costs

The Pennsylvania commission recently ordered the highway department to reimburse electric, gas, and telephone companies in Philadelphia 60 per cent of relocation costs involved in the new depressed highway which connects the Schuylkill expressway with the Delaware river expressway. The financing for this highway is part state and part federal. The project is not a municipal relocation, but one directed through the city for state and national highway use.

Typical of the arguments advanced by the utilities were the contentions of the Philadelphia Electric Company. The company admitted that it had no vested right in the bed of the city streets and that the highway department had no legal right to reimburse the utility for the cost of relocation.

The company claimed that the problem involved was not one of law but of equity and of public policy with the commission as the sole arbiter.

The company stated that its contract with the city of Philadelphia required that it relocate, at its own expense, if relocation became necessary for the laying of water or gas pipes, sewers, or any other municipal works. The instant improvement, said the company, is not a municipal improvement in that sense. It would not be equitable to impose the cost of the utility facility relocation upon ratepayers who were also taxpayers paying for the highway improvement.

Burden of Cost

The commission agreed with the company. To require the service utilities to bear the entire cost of the relocation of their facilities needed to serve the public under legal and franchise obligations, said the commission, would be tantamount to finding that local ratepayers should bear a burden that substantially attaches to through or nonlocal traffic. This would be so because any costs imposed upon the utility are recognized as capital expenditures and, accordingly, require allowances for amortization and fair return. Simple justice demanded that the local ratepayers should not be saddled, especially by indirection, with all of the costs of any major construction program that obviously was quantitatively in excess of the ratepayers' local requirements. The commission felt that the utilities were entitled to partial reimbursement for their relocation costs.

The highway department was directed, when certified by the commission, to reimburse 60 per cent of the actual cost incurred by the utilities in furnishing material and in doing work within the limits of the improvement. The salvage value of material recovered or temporarily used in accordance with the order was to be deducted from the actual cost of the work. *Re Pennsylvania Dept. of Highways, Application Docket No. 81282, December 12, 1955.*

Seasonal Customers Bear Brunt of Electric Rate Increase

THE Massachusetts commission, after it had granted an electric company a rate increase necessitated primarily by the high demands of seasonal customers, as well as extraordinarily heavy maintenance charges due to severe storms, determined that the seasonal customers should bear the brunt of the increase.

Over 37.5 per cent of the company's gross revenues in the test year were realized from seasonal rates. The increased peak demands for summer months and the increased carrying costs on the plant required to meet such demands, made the allocation of the major portion of the increase to the seasonal customers eminently fair in the eyes of the commission, since these customers were responsible for the distorted and expensive operation of the company.

In order to meet the requirements of all its customers, the company was obliged to maintain its plant and property throughout the year, although a large part of it was nonproductive during a substantial part of the period. Charges like taxes, interest, depreciation, and the return on that part of the investment required to serve seasonal customers were assessed, paid for, or set aside by the company on a yearly basis and not upon the time the customer used electricity.

Allocation of Tax Benefits from Consolidated Return

The company, since it was a subsidiary, had had its income included in the consolidated federal income tax return of the parent. The resultant consolidated return credit had been used to reduce the indicated federal income tax. This credit stemmed principally from interest charges on debt securities of the parent. The aggregate consolidated return credit was so distributed that the tax reduction to the subsidiary corresponded to that which would have been experienced by the subsidiary were its debt ratio the same as the consolidated debt ratio of the parent and subsidiaries.

This method was claimed by the company to give equitable results since changes in earnings in a given company, whether due to normal factors or extraordinary and nonrecurring expenditures such as those due to severe storms, affected only the income taxes attributable to that company. The commission concurred, saying that the method was an improvement over the previous apportionment, under which hurricane losses of electric companies might result in tax benefits to gas companies when the parent company owned both gas and electric properties. *Re Cape & Vineyard Electric Co. DPU 11548, February 20, 1956.*

Normalizing of Tax Effects of Accelerated Depreciation Rejected in Water Rate Case

HAVING operated for more than thirty years without a rate increase, the Citizens Water Company of Washington, Pennsylvania, applied to the state commission for authority to increase metered rates by approximately 68 per cent and a smaller increase for fire protection rates. After adjusting proposed property values and operating expenses, the commission granted a somewhat smaller increase calculated to produce a rate of return of 5.70 per cent on a fair value rate base.

Fair Value of Properties

In determining the fair value of the company's properties, the commission was required to consider, among other things, original cost and reproduction cost, the latter at the fair average price of materials, property, and labor. With respect to the company's land, nearly all of which was watershed land, the commission adopted original cost as the fair value. Appraisals submitted by the company, however, indicated an aggregate value of nearly three and a half times original cost, while parties opposing the rate increase valued the land at less than original cost. The company pointed to current values of abutting lands.

The commission expressed the opinion, however, that current market values of abutting lands which have been laid out and improved for building development are not criteria for establishing, for rate-making purposes, the value of land used by a water company in the public service. The fact, said the commission, that adjacent land brings a high price is no proof that large utility holdings could be sold on a wholesale basis at a similar price.

It is noteworthy that one commissioner vigorously dissented from the majority opinion as to fair value of land, asserting that a fair value finding demanded consideration of reproduction cost which was amply shown in this case by appraisal evidence. This commissioner set a substantially higher value upon the company's land than original cost.

Giving due consideration to an original cost valuation of nearly $5,000,000 placed upon the company's entire properties used and useful, together with several reproduction cost figures ranging roughly between $8,000,000 and $9,000,000, the commission fixed a fair value rate base at $6,750,000.

Accelerated Depreciation and Taxes

THE company sought to normalize the federal income tax effects of accelerated depreciation which it elected to take under the Internal Revenue Code of 1954. The commission, however, declined to allow normalization of tax savings but allowed income taxes on the basis of ac-

tual taxes paid. The tax effect of accelerated depreciation, said the commission, should receive the same treatment for rate-making as for accounting purposes.

Comparing accelerated depreciation of property having a relatively long life with accelerated (5-year) amortization of emergency facilities, the commission expressed the opinion that they were not the same either in principle or in practical effect. Five-year amortization, it was noted, results in a tax saving for a 5-year period but is subsequently offset by higher tax payments. Accelerated depreciation, on the other hand, affords tax savings for an indefinitely long period which may be in perpetuity, depending upon future addition of plant.

Since the company was an operating subsidiary, a question arose as to the treatment of tax savings resulting from the use of consolidated tax returns. The consolidated savings to this company amounted to about 15 per cent. Consistent with its ruling upon the tax savings effected by the use of accelerated depreciation, the commission allowed income taxes on the basis of the portion of the consolidated tax actually paid.

Cost of Capital and Fair Return

The company asked a rate of return within the range of 6 to 6.25 per cent based on an alleged cost of capital ranging between 5.6 and 6.5 per cent. It was claimed that the cost of money to the parent company had no significance in determining the cost of money or in fixing the rate of return for the operating subsidiary. Disagreeing, the commission said it was unrealistic in evaluating utility holding company systems to treat an operating subsidiary as an independent.

It appeared that the operating company's capital structure during recent years approximated 60 per cent debt, 15 per cent preferred, and 25 per cent common stock. The commission considered this structure representative and reasonable for determining the company's cost of capital. Analyzing the cost of debt capital and preferred and common equity capital on the basis of the representative structure, the commission found that the composite cost of capital to the operating company was 5.5 per cent. The holding company system, however, operated under a structure abnormally high in debt, resulting in a high cost of capital.

In determining a fair rate of return, the commission stated that it has followed a procedure of finding a cost of capital "that bears an observable direct relation to the objective statistical evidence of typical past capital costs applicable to the risks involved" in the operations of an applicant company as well as other comparable companies. Then a separate specific judgment allowance in fair rate of return must be made for those other factors which are not readily susceptible of statistical proof. Applying this procedure, the commission established a rate of return of 5.70 per cent in this case and ordered rates accordingly. *Pennsylvania Pub. Utility Commission et al. v. Citizens Water Co. of Washington, Pa. Complaint Docket Nos. 16348, 16274, 16289, December 12, 1955.*

Transit Company "Experimental" Tariff Approved

A TRANSIT company sought approval of a revised tariff schedule before the Missouri commission, claiming that its earnings were, and had been for some

time, so low that it was unable to absorb increased labor costs from current earnings and that additional revenue had to be obtained.

The company proposed raising the additional revenue by instituting a 2-cent transfer charge throughout the system, limited to one transfer irrespective of the number of lines used during a particular trip.

It proposed a traffic center in which no fares would be collected. The passengers boarding the vehicles in the traffic center would pay their fares when they alighted from the vehicle outside the center. A reduced fare zone in which interzone fares would be 10 cents, plus the proposed transfer charge, was also proposed.

The company showed that its return for a six months' test period from intrastate operations on its depreciated original cost rate base, excluding nonpassenger revenues, was 5.133 per cent. If nonpassenger revenues were included, the return for that period would be 5.801 per cent. If the present fare structure were continued and the new labor costs applied, the company would earn a return of 0.66 per cent, nonpassenger revenues being excluded, and 2.21 per cent if nonpassenger revenues were included.

Proposed Fares

The company estimated that the proposed fare structure would produce a return from intrastate operations of 2.04 per cent, and with nonpassenger revenues included, the prospective return would approximate 3.56 per cent.

The commission found that the proposed schedule was reasonable and should be approved. The company, the commission said, was faced with a substantial increase in operating expenses because of the additional wage costs. Its earnings position was not adequate to permit it to absorb the additional costs out of current earnings. The return for 1955, which the commission did not consider excessive, would decline during 1956 even though the proposed fare schedule was approved.

Reduced Fare Zone

The commission also commented that the reduced fare zone in the downtown area was worthy of trial, in that it might produce additional net revenue because of the added incentive to automobile riders to leave their cars at the fringe of the reduced fare zone and ride buses to the downtown area. The purpose of the downtown traffic center was to speed the movement of the buses from the area during rush hours. The commission felt that it would result in little, if any, loss of revenue to the company and would enable the company's vehicles to leave the downtown area more quickly to the benefit, not only of the company, but also of the public generally.

Although the commission, in prior cases, had expressed some disapproval of a transfer charge, it now appeared that under the circumstances in which the company found itself such charge was the best solution for the problem at hand. A study of the riding habits of the city's residents indicated that the transfer rider on the average used the vehicle for a greater distance than did the one-line rider.

The commission regarded the approved tariff as an experiment. If subsequent experience should show, said the commission, that changes or modifications were required or that, in its operation, it was working to the prejudice or undue advantage to certain segments of the community or to certain groups or classes of patrons, necessary adjustments would be made. *Re Kansas City Pub. Service Co. Case No. 13151, February 3, 1956.*

Six Per Cent Return Allowed on Sewerage Plant in Use But Denied As to Incomplete Construction

IN authorizing a rate increase for a sewerage company serving Atlantic City, the New Jersey commission allowed a rate of return of 6 per cent on an original cost rate base.

Rising operating costs and increased federal income taxes since the last rate change in 1941 were cited by the company as factors necessitating higher rates.

A sufficient increase was sought not only to provide a reasonable return on plant in use but also to cover a substantial addition to plant then under construction. While the commission authorized an immediate increase based on the value of plant in use, it refused to allow a return on the value of the construction project until such time as the work should be fully completed and put in operation.

Cost of Capital

In support of its claim to a return of $6\frac{1}{2}$ to $6\frac{3}{4}$ per cent, the company presented evidence as to the cost of capital. The cost of debt and equity capital as shown by the company was substantially in agreement with the figures offered by the Atlantic City Hotelmen's Association, which protested the rate increase. They differed markedly, however, as to an acceptable ratio of debt and equity upon which to calculate the over-all cost of capital. The company claimed 50 per cent debt, and the association 65 per cent. With the latter figure, it was maintained, interest would be earned 2.3 times, which was asserted to be adequate. Under a 65 per cent debt capitalization, the association proposed a rate of return of 5.65 to 5.75 per cent.

The commission pursued the analysis no further but, giving consideration to the factors of growth, capitalization, size, and method of operations, as well as the record as a whole, concluded that a rate of return of 6 per cent would be fair and reasonable. *Re Atlantic City Sewerage Co. Docket No. 8809, February 16, 1956.*

Accelerated Rural Construction Program Desirable But Not Factor in Rate Increase

THE Michigan commission, in authorizing a telephone company to increase its rates so as to produce a return of 7.35 per cent, commented on the relationship of the company's proposed accelerated rural construction program to the amount of additional revenues actually granted.

The commission found the proposed construction program a desirable one. It would meet the presently foreseeable service demands of the areas involved, and would make possible service in areas not presently served by any telephone company. However, the commission denied any increase in rates on account of the proposed accelerated rural program. Evidence of its effect on the company's operations was a forecast or projection, said the commission, and was not based on actual expenditure or investment. The commission believed that it was not in the public interest to grant a rate increase to a company for the purpose of financing expansion into areas not presently served. To do so would, in substance, amount to subsidizing the proposed rural construction program and the anticipated customers to be served, at the expense of existing customers.

An adequate over-all rate of return,

said the commission, should enable the company to make financing arrangements for proposed construction. The company was reminded of its obligation to provide service to all applicants throughout its service area. Since it would be advantageous to both the company and presently unserved customers, there was at least a similar obligation to serve the developed but unassigned areas adjacent to some of its exchange areas. The process of regulation is a continuing one, and if, in the process of developing the program, or after completion, the company's operations do not produce an adequate return, the company could make further application to the commission for relief based on circumstances and conditions existing at the time. *Re Union Teleph. Co. T-223-56.1, January 25, 1956.*

Annual Water Hydrant Charge Approved

A SMALL water company, in operation since 1954, applied to the Massachusetts commission for authority to include an annual hydrant charge in its tariff.

All the securities of the company were owned by its largest customer, which also utilized 33 private hydrants out of the 271 total hydrants.

The company showed that present revenues produced a return of approximately 4.3 per cent on a net investment rate base. Additional revenues resulting from the hydrant charge would increase the return to approximately 6.2 per cent.

Cost of Capital

Since all of the securities were held by the company's largest customer, and since the company was relatively small and had been in operation a very short time, it was difficult for the commission to make an accurate estimate as to the capital costs to be considered. The company's present debt ratio was 50 per cent, and debt was carried at 5 per cent which, though by no means generous, the commission thought represented more than a fair interest rate on an operation of this nature.

The only testimony in the record as to the cost of equity money was 7 or 8 per cent. The commission noted that if the figure of 7 per cent was used and an 80 per cent dividend pay-out was estimated, the cost of equity money would be about 8.75 per cent. The result would be an over-all cost of money of about 6.88 per cent. Although this figure seemed rather generous for a water company, the commission did not believe that the indicated return of 6.2 per cent was excessive. It concluded that the additional revenue would not result in excessive profits to the company. The proposed hydrant charge was approved. *Re Whitinsville Water Co. DPU 11585, February 13, 1956.*

Competition Essential for Reparation Based on Alleged Preferential Freight Rate

AN action for reparation, based on alleged prejudicial railroad freight rates, which had been instituted by a cement company in the early part of 1955, was resolved by the California commission when it denied a petition for rehearing after previously dismissing the action.

The company was denied reparation for lack of a showing that it had suffered damage by reason of the fact that it paid

higher rates for the transportation of iron ore than those paid by a steel company for transportation to a city located in approximately equivalent distance. The question of the reasonableness of the rates was not involved. The only question was whether or not the company was entitled to reparation by virtue of having paid the railroad a rate which was claimed to be unduly discriminatory, and whether the alleged discrimination should be removed.

In the rehearing, the commission affirmed its previous dismissal, finding that there was no competition between the cement company and the steel company located in the town having the lesser rate. An essential in proving damage in a reparation proceeding, said the commission, is the existence of a competitive condition between the party claiming to be prejudiced and the party asserted to be preferred.

The existence or nonexistence of competition is implicit in the grant or denial of reparation. *California Portland Cement Co. v. Union P. R. Co. Decision Nos. 52331, 52656, Case No. 5614, December 5, 1955.*

Carrier's "Grandfather" Irregular Route Authority Sustained against Change by Commission

THE right of a pioneer Nebraska motor carrier to the "irregular route operation" authority which he had obtained by "grandfather rights" nearly two decades ago was upheld by the Nebraska supreme court upon appeal from a commission order changing that authority. The revocation of part of the carrier's regular route authority, however, was not contested, nor was a limitation that was placed on the type of services he was authorized to render.

During the years, the carrier's irregular route business grew so as to require more frequent and somewhat regular trips in order to carry all of the authorized commodities tendered him. He willingly met this increased demand since his certificate contained no limitation as to volume of business.

Statutory Basis

An amendment to the state motor carrier act, enacted after the carrier's certificate was granted, authorized the commission to establish certain classifications of motor carrier operations and to interpret all existing certificates in accordance with such classifications. The act provided that in order for the commission to change a certificate, it must appear that there was a "willful failure" on the part of the carrier to comply with the requirements of the act and the rules and regulations of the commission promulgated under the act.

In accordance with the amendment, the commission established classifications which affected irregular route operations. It thereafter charged this carrier with "willful failure" to comply with the provisions of the act and the rules and regulations of the commission in the light of the new classifications. After a hearing, it ordered a change in the carrier's "irregular route operation" authority.

No "Willful Failure"

The court ruled that neither the amendment nor any action taken by the commission under it could have the effect of changing any authority granted prior to the enactment of the amendment, such as that held by this carrier. The record established that the carrier had at all times fully

said the commission, should enable the company to make financing arrangements for proposed construction. The company was reminded of its obligation to provide service to all applicants throughout its service area. Since it would be advantageous to both the company and presently unserved customers, there was at least a similar obligation to serve the developed but unassigned areas adjacent to some of its exchange areas. The process of regulation is a continuing one, and if, in the process of developing the program, or after completion, the company's operations do not produce an adequate return, the company could make further application to the commission for relief based on circumstances and conditions existing at the time. *Re Union Teleph. Co. T-223-56.1, January 25, 1956.*

Annual Water Hydrant Charge Approved

A SMALL water company, in operation since 1954, applied to the Massachusetts commission for authority to include an annual hydrant charge in its tariff.

All the securities of the company were owned by its largest customer, which also utilized 33 private hydrants out of the 271 total hydrants.

The company showed that present revenues produced a return of approximately 4.3 per cent on a net investment rate base. Additional revenues resulting from the hydrant charge would increase the return to approximately 6.2 per cent.

Cost of Capital

Since all of the securities were held by the company's largest customer, and since the company was relatively small and had been in operation a very short time, it was difficult for the commission to make an accurate estimate as to the capital costs to be considered. The company's present debt ratio was 50 per cent, and debt was carried at 5 per cent which, though by no means generous, the commission thought represented more than a fair interest rate on an operation of this nature.

The only testimony in the record as to the cost of equity money was 7 or 8 per cent. The commission noted that if the figure of 7 per cent was used and an 80 per cent dividend pay-out was estimated, the cost of equity money would be about 8.75 per cent. The result would be an over-all cost of money of about 6.88 per cent. Although this figure seemed rather generous for a water company, the commission did not believe that the indicated return of 6.2 per cent was excessive. It concluded that the additional revenue would not result in excessive profits to the company. The proposed hydrant charge was approved. *Re Whitinsville Water Co. DPU 11585, February 13, 1956.*

Competition Essential for Reparation Based on Alleged Preferential Freight Rate

AN action for reparation, based on alleged prejudicial railroad freight rates, which had been instituted by a cement company in the early part of 1955, was resolved by the California commission when it denied a petition for rehearing after previously dismissing the action.

The company was denied reparation for lack of a showing that it had suffered damage by reason of the fact that it paid

higher rates for the transportation of iron ore than those paid by a steel company for transportation to a city located in approximately equivalent distance. The question of the reasonableness of the rates was not involved. The only question was whether or not the company was entitled to reparation by virtue of having paid the railroad a rate which was claimed to be unduly discriminatory, and whether the alleged discrimination should be removed.

In the rehearing, the commission affirmed its previous dismissal, finding that there was no competition between the cement company and the steel company located in the town having the lesser rate. An essential in proving damage in a reparation proceeding, said the commission, is the existence of a competitive condition between the party claiming to be prejudiced and the party asserted to be preferred.

The existence or nonexistence of competition is implicit in the grant or denial of reparation. *California Portland Cement Co. v. Union P. R. Co. Decision Nos. 52331, 52656, Case No. 5614, December 5, 1955.*

Carrier's "Grandfather" Irregular Route Authority Sustained against Change by Commission

The right of a pioneer Nebraska motor carrier to the "irregular route operation" authority which he had obtained by "grandfather rights" nearly two decades ago was upheld by the Nebraska supreme court upon appeal from a commission order changing that authority. The revocation of part of the carrier's regular route authority, however, was not contested, nor was a limitation that was placed on the type of services he was authorized to render.

During the years, the carrier's irregular route business grew so as to require more frequent and somewhat regular trips in order to carry all of the authorized commodities tendered him. He willingly met this increased demand since his certificate contained no limitation as to volume of business.

Statutory Basis

An amendment to the state motor carrier act, enacted after the carrier's certificate was granted, authorized the commission to establish certain classifications of motor carrier operations and to interpret all existing certificates in accordance with such classifications. The act provided that in order for the commission to change a certificate, it must appear that there was a "willful failure" on the part of the carrier to comply with the requirements of the act and the rules and regulations of the commission promulgated under the act.

In accordance with the amendment, the commission established classifications which affected irregular route operations. It thereafter charged this carrier with "willful failure" to comply with the provisions of the act and the rules and regulations of the commission in the light of the new classifications. After a hearing, it ordered a change in the carrier's "irregular route operation" authority.

No "Willful Failure"

The court ruled that neither the amendment nor any action taken by the commission under it could have the effect of changing any authority granted prior to the enactment of the amendment, such as that held by this carrier. The record established that the carrier had at all times fully

responded to all demands by the public for services in accordance with his irregular route authority and had maintained sufficient equipment to serve adequately. It did not appear that any "willful failure" existed on which the commission could base its action. On these facts, said the court, it was unreasonable for the commission to change his "irregular route operation" authority, and it should be restored. *Re Abler Transfer, Inc. et al. 73 NW2d 667.*

Other Recent Rulings

Normalizing of Tax Denied. The Pennsylvania commission allowed a rate of return of 6.50 per cent on the fair value rate base of a gas and electric company but, following its recent decision in the Citizens Water Company Case (discussed on page 570 of this section), the commission refused to permit normalization of the tax effects of accelerated depreciation for rate-making purposes. *Pennsylvania Pub. Utility Commission et al. v. Manufacturers Light & Heat Co. Complaint Docket Nos. 16330 et al. January 3, 1956.*

Highway and Railroad Crossing. The Massachusetts commission approved an agreement between a town and a railroad providing for the laying of a highway across the railroad where the evidence showed the existence of public convenience and necessity in connection with the establishment of the crossing and that the flashing lights and warning signs to be erected were sufficient to comply with statutory directions. *Re Town of Lexington, DPU 11599, February 3, 1956.*

Contribution for Bridge. A railroad company was required by the Missouri commission to pay half the cost of constructing a new bridge to replace an old one found to be inadequate, although its only benefit from the new structure would be better clearances. *City of St. Louis v. Missouri P. R. Co. et al. Case No. 13,174, February 16, 1956.*

Officers' Salaries. The Missouri commission, in granting a modified rate increase to a telephone company, commented that, while it did not have the power to tell management what it should pay officers, it did have the power and duty to determine whether or not proposed salaries were reasonable for the service performed and if they were a proper charge to operating expenses. *Re K. L. M. Teleph. Co. Case No. 13,070, January 27, 1956.*

Demurrage Determined. A United States court of appeals ruled that a formula employed by the Interstate Commerce Commission to determine deductions from freight car demurrage charges against a consignee was reasonable and proper, notwithstanding a contention by the consignee that the method was a "rule or regulation" and could not be validly applied since it was not published in the railroad's tariffs. *National Trucking & Storage Co. v. Pennsylvania R. Co. et al. 228 F2d 23.*

Transit Fare Adjustment. In a tariff investigation proceeding the Missouri commission authorized a transit company to reduce the discount allowed to purchasers of weekly permits, as a means of enabling the company to absorb increased labor costs, considering that its rate of return at the time was only about 4 per cent. *Re St. Louis Pub. Service Co. Case No. 13,281, February 24, 1956.*

Industrial Progress

elaware P & L Plans $100 Million pansion Over Next Five Years

ELAWARE Power & Light Co. and bsidiaries will spend upward of 00,000,000 for additional electric d gas facilities in the next five years present trends continue, Stuart oper, president, said.

More than $45,000,000 of this will allocated for additional electric nerating equipment, he said. Other ajor items include $21,500,000 for wer voltage distribution lines; $10,-00,000 for new and enlarged sub-stans, $9,000,000 for high voltage ansmission lines and $7,000,000 for tension, expansion and maintenance gas service facilities in the Wilington area.

The balance of the expenditures will allocated for other facilities essenl for the company's operation, Mr. ooper said.

The over-all expenditures will inude two new electric generating staons now under construction. One of ese, a $22,000,000 installation being ilt near Delaware City, is scheduled r completion this year. It will genrate 50,000 kilowatts of electricity nd provide large amounts of steam ear for a nearby refinery of Tide ater Associated Oil Co.

The other is a $17,000,000 power ant on the Indian river in southern elaware that is scheduled for cometion in 1957. It will produce about),000 kw. An additional generating ni is also planned at this site with on truction to begin in 1958.

tone & Webster to Build New nit for El Paso Electric Company

. ARTER WOMACK, president f El Paso Electric Company has auorized Stone & Webster Engineerg Corporation to proceed with the onstruction of Unit No. 6 at the Rio rande station.

The unit will consist of one 44,000 kw preferred standard turbine generator which will be supplied with steam at 850 psi gage, 900 F from a gas or oil fired steam generator capable of producing 470,000 lbs. of steam per hour.

Cooling water towers will be required and, in turn, will be supplied with water from deep wells. A centralized control room which will enable a minimum of operators to control the entire station output will also be a part of this program.

L.O.F. Glass Fibers Announces Personnel Changes

DONALD L. McCLURE, formerly manager of the L.O.F. Glass Fibers' plant at Parkersburg, West Virginia, has been named to the newly-created post of director of industrial relations of the company with headquarters in Toledo. The announcement was made by Thomas A. Collins, vice president and assistant general manager.

In connection with Mr. McClure's appointment, J. H. Plummer, vice president in charge of manufacturing and engineering, named John M. Keenan, former manager of the Waterville plant, to replace Mr. McClure as plant manager at Parkersburg.

Replacing Mr. Keenan as Waterville plant manager is Gerald L. White, formerly supervisor of the fiber-forming department.

Georgia Power Sets New Record In Use of Power

A NEW record was set in 1955 in the use of electric power in Georgia, according to the Georgia Power Company's annual report to stockholders released recently. Total electric sales were 7.2 billion kilowatt-hours, an increase of 8.6 per cent over 1954 sales. Use of electric power by residential customers increased 7.8 per cent; by commercial customers, 8.3 per cent; and by industrial customers, 12.5 per cent. Nearly 24,500 new customers were added to the lines of the company during the year, bringing the total served to more than 578,000.

More than $29,400,000 was invested in new electric facilities. A 100,000 kilowatt steam-electric generating unit and a 5,000 kilowatt hydroelectric unit were completed during the year. A total of 265 miles of transmission lines and 545 miles of distribution lines were also built.

The report stated that the Georgia Power Company expects to participate in the construction of a 100,000 kilowatt experimental atomic-powered electric generating plant which will be built in Michigan by the Power Reactor Development Company.

New Distribution Transformer Bulletin

A NEW, informative 32-page bulletin providing design and product data on single and three phase distribution transformers, with high-voltage ratings from 480 to 15,000 volts, has been published by the Gardner Transformer Division, Federal Pacific Electric Co., Emeryville 8, California.

Transformers featured in the bulletin utilize special silicon steel cores in which loss is decreased and permeability is increased by controlled cold-rolling and annealing of laminate material. The oriented core material contributes to light-weight designs that require less copper, oil and smaller tanks. From an operational viewpoint, electrical regulation is improved and maintenance is reduced.

Copies of Bulletin No. 3-500 may be obtained on request to the sales department, Gardner Transformer Division, Federal Pacific Electric Co., Emeryville 8, California.

(*Continued on page* 30)

Sylvania Announces New Booklet On Industrial Lighting

A NEW booklet, "Better Industrial Lighting with Mercury Vapor," has been announced by Sylvania Electric Products Inc.

The purpose of the booklet is "to point out to the plant manager or engineer how he can improve industrial seeing and working conditions at lower cost," according to Lawrence P. Pleasants, merchandising manager of Sylvania's Lighting Division. The manual contains a summary of eight basic advantages of using mercury vapor lamps in industrial plants.

The new booklet contains ten photographs showing typical applications of mercury vapor lamps. It also contains a section on engineering hints for effective installations.

The new booklet is available without charge from Sylvania sales offices.

West Penn Power to Spend $25,000,000 on Plant in '56

WEST Penn Power Company expects to spend $25,000,000 on expansion in 1956, President Philip H. Powers told stockholders in the annual report.

Mr. Powers estimated almost half this year's construction budget will be spent on the new Armstrong generating station going up along the Allegheny river that will produce 160,000 kilowatts of electricity when it's switched on in 1958. The utility plans to complete this year's expansion program without the aid of public financing, Mr. Powers added.

Electro-Motive to Expand Facilities

MANUFACTURING space of Electro-Motive Division of General Motors at its No. 1 plant in McCook, Illinois, will be increased 42 per cent, to be in operation early in 1957, it was announced by N. C. Dezendorf, general manager of Electro-Motive and vice president of General Motors.

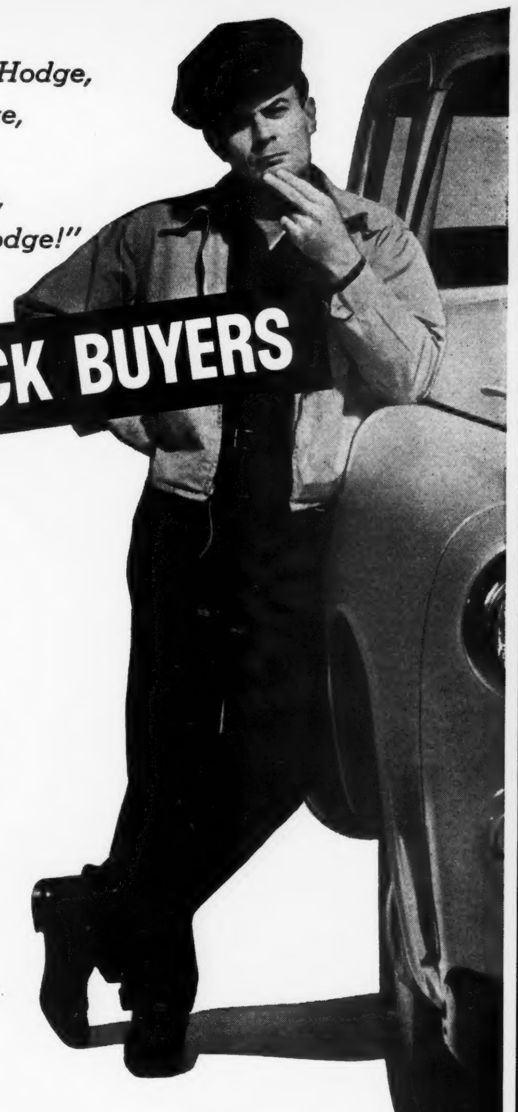
Growth of the division's Diesel locomotive manufacturing and rebuild business and an increasing rate of acceptance of two new products in the electric utility and oil well drilling fields make the expansion of faciliti necessary, Mr. Dezendorf pointed o

"Two factors of interest to the pu lic contribute to the increase in t Diesel locomotive business," said M Dezendorf. "More than a year ago t Class I railroads of the United Stat gave evidence that they were going complete Dieselization as quickly economically possible, and stepped their buying rates accordingly. On t of this came an increase in railro business due to growth of the nation economy. Some idea of the effect this on our business may be gain from the fact that six major railroa that had publicly announced in 19 they were completely Dieselized ca back to us in 1955 and ordered mo Diesel locomotives. In addition, o locomotive rebuild business continu to mount substantially each year a the export market has grown until th year it demands the equivalent of most one locomotive unit a day.

"Meanwhile, the two new maj products we announced in 1955 ha begun to take hold in their marke Electric utilities in both the domes

(*Continued on page 32*)

"I'm burning these ten-spots," said Hodge,
Burning bills in his big truck garage,
"To show how we lose,
When a new truck we choose,
Without first having checked on Dodge!"



QUICK QUIZ FOR TRUCK BUYERS

Try this quick quiz before you buy your next truck—and you'll get a better truck for your money:

Q. What truck line offers you *today's lowest prices* on such popular models as the ½-ton panel, the 1-ton express, and the 1½- and 2-ton stakes?

Q. Which truck line has the largest cabs?

Q. Which has the greatest driver visibility?

Q. Which has the shortest turning radius?

The answer is "Dodge"—leader for the last 39 years. And this year "Dodge" is the answer to virtually every question you can ask that has to do with lower cost haulage or delivery.

You'll find Dodge trucks are the best answer, too, on price. For Dodge trucks are priced so competitively that no one can beat your Dodge dealer's deal.

When time comes to buy your next truck—get the answers that will lead you straight to today's best truck value—Dodge.

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WITH THE *FORWARD* LOOK

Get the Dodge Dealer's Deal Before You Decide

and export markets have placed ders for the Electro-Mobile Po Cars (mobile generating units) such strength, and are showing s interest in future applications, tha are taxed to meet the demand with present facilities. The same situa faces us with respect to our heavy-duty Diesel-electric power p for deep oil well drilling rigs."

Pacific Northwest Developme

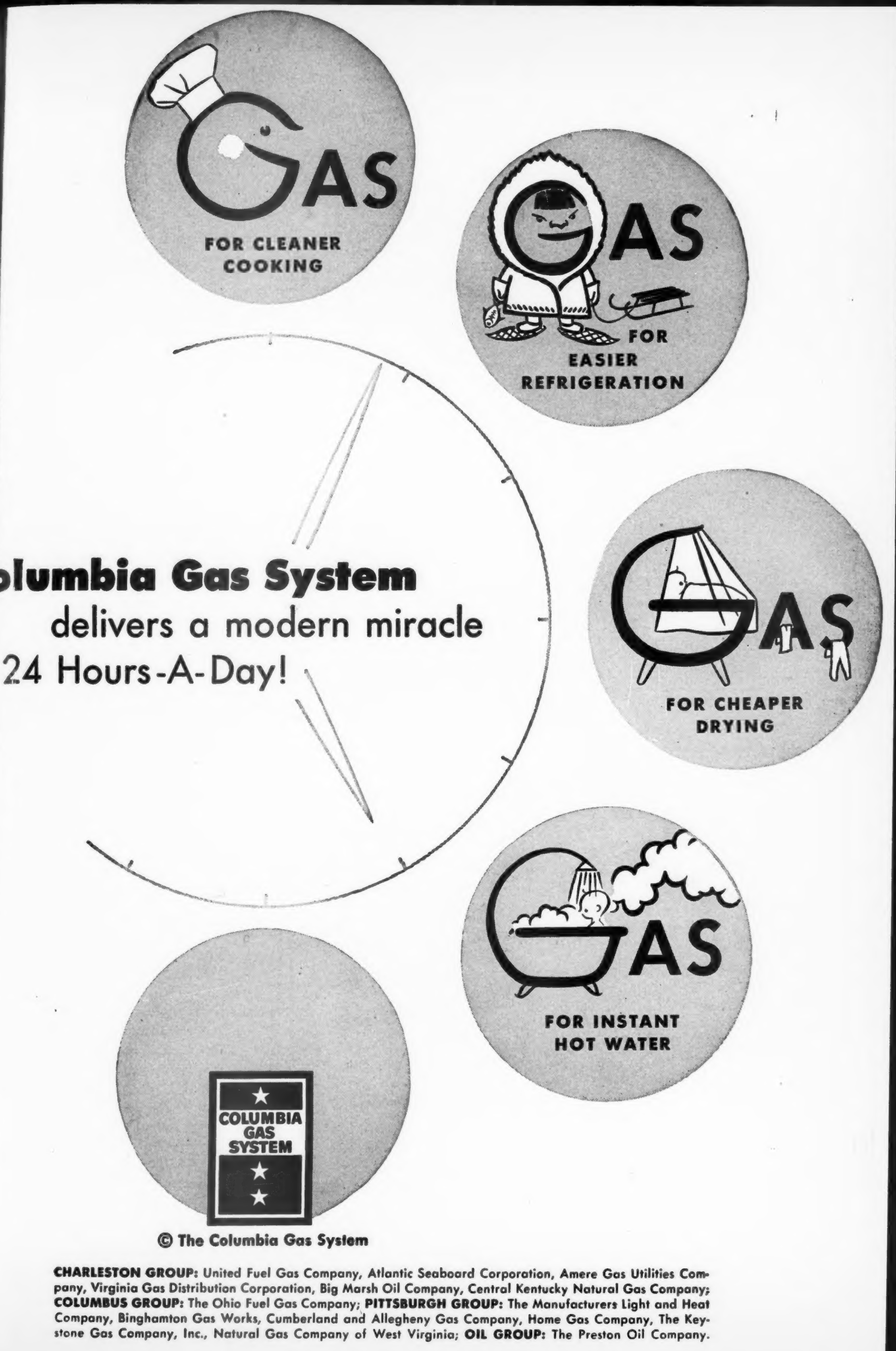
THE outstanding industrial deve ment in the Pacific Northwest (1 to 1954) was the increase in electr peak load, according to speakers fore the spring meeting of the Am can Society of Mechanical Engine The increase in power peak load from 2 million kw in 1940 to m than 7 million kw in the 14-y period. The area discussed inclu all of Washington and Idaho, parts Utah, Montana, Oregon and Bri Columbia. Using figures taken f a study by the Pacific Northwest G ernors' Power Policy Committee P. Buehler of Bechtel Corp., and E. Walsh of Portland General E tric Co., discussed the hydro poten and existing difficulties hampering start of many projects needed to s ply future estimated loads.

The study of load growth wit the area began with 1920, when actual peak load was 700,000 k watts. In the 20-year period up 1940, the peak increased to 2 milli a total less than three times the or inal figure, whereas the growth in 14-year period between 1940 and 19 represents a growth of three and o half times.

Over the period since 1920 t yearly average load increased 7.60 p cent; the latest 5-year period, ho ever, has shown a yearly average i crease of 9.34 per cent. Based on the computations, the estimated annual i crease for the next eight years will 6.62 per cent.

It was on this basis of estimat load growth that the authors, in the presentation, examined the ability dependable capacity from existin under construction, and definite scheduled power resources to meet t estimated peak loads up to 1964. Sp

(*Continued on page* 34)



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cific examples were discussed and the physical, practical or ideological difficulties of each were explained as they affected the completion and placing into service of sufficient capacity to alleviate the Pacific Northwest's projected growing pains.

Copies of the paper, No. 56-S-9, can be obtained at 50 cents each from Order Dept., ASME, 29 W. 39th St., New York 18, N. Y.

Lift Cuts Maintenance Costs

A PORTABLE, all-hydraulic, elevating work platform, the HY-DECK, which converts any size or type of truck for aerial work up to 37 feet, was recently put on the market by G. W. Galloway Company, 25 North Fourth Avenue, Arcadia, California.

The HY-DECK, which raises 500 pounds to full height in less than 2 minutes, is said to be a great time saver in the maintenance of outdoor lighting, power, and communications lines, tree trimming and other overhead maintenance activities. Available with electric motor, gasoline engine, or power take-off, the work platform can be raised and lowered by means of foot controls right on the platform floor, or by hand controls mounted on the truck body.

Twelve different sizes and styles of platforms are available. A novel platform rotation feature gives access over parked cars and other obstacles when used with the offset platforms.

HY-DECKS can be installed on the truck in less than four hours. They can also be mounted on trailers, or on warehouse and shopfloors for use as utility elevators.

Motorola Communications Expands National Sales Structure

A MAJOR expansion of the national sales structure of Motorola Communications and Electronics, Inc.—the establishment of four geographical sales divisions and the appointment of six vice presidents—was announced by Daniel E. Noble, vice president.

In the new alignment, Arthur L. Reese, formerly assistant secretary was appointed vice president and operations manager.

Eugene S. Goebel, formerly national sales manager, was appointed v president for market relations, w duties to include public and custo relations, and other special staff signments.

Four former regional managers the field were appointed vice pr dents and placed in charge of the n sales divisions. They are:

Lowell E. White, vice president eastern sales division manager; H mer L. Marrs, vice president and C tral Sales Division manager; Edw L. Falls, Jr., vice president and sou ern sales division manager; and D ald F. Brickley, vice president western sales division manager.

Gas Househeating Custome Increase Greatly

THE gas utility industry added 1,4 000 new gas househeating insta tions during the 1955-1956 heat season, the American Gas Associat reports. The industry expects to more than 3.8 million new installati during the next three heating seas bringing the total number of g heated homes to 19.2 million by I cember 1958. At the end of 1955 th were 15.4 million homes heated gas, equivalent to 57.5 percent of residential gas customers.

New Sangamo 50 KVAR Power Capacitors

THE Sangamo Electric Company cently announced the addition of a KVAR rating to its line of Diac Power Capacitors.

The new units meet all applica NEMA Standards as to performa characteristics and test. They can installed in standard racks hav 15 5/8" mounting centers. The KVAR units have the same base mensions as 25 KVAR units, but only 10" higher and have about 15 p cent less weight per KVAR.

The specifications covering desi construction, and materials of the n 50 KVAR unit are comparable in respects to Sangamo's 25 KV units, including internal reservoir a ability to operate in ambient tempe tures from minus 40° C. to plus 46°

Sangamo can now furnish both KVAR and 50 KVAR individual u in voltage ratings of 2400, 4160, 48 7200, 7620, and 7960, also cluster a in-line pole-type assemblies, switc and unswitched. Address Sanga Electric Company, Springfield, I nois for bulletin 1121.

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